RRBB ACCOUNTANTS + ADVISORS

We deliver knowledge, ideas and exceptional results.

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RRBB Announcements

RRBB Happenings

RRBB Congratulations

RRBB congratulates partners Carl Schwartz and Steve Truppo who are celebrating their 35th anniversaries with the firm. Carl and Steve have been with the Maplewood office since 1981. Carl specializes in asset management and taxation, and Steve specializes in accounting and auditing. Congratulations!

Weddings abound this summer. First, Joe Sheehan of our Somerset office got married on Saturday, July 16th, and headed off to Hawaii for his honeymoon. And, in August we have two weddings in our Maplewood office. An Hu is getting married on August 13th, and Eric Schwartz is tying the knot on the 27th. Congratulations and best of luck to each of you!!

RRBB offers support

Again this year, RRBB Accountants and Advisors proudly sponsored a charity outing to support “Save a Child’s Heart Foundation.” Our friends at Lucosky Brookman, LLP hosted the event, a Casino Night in NYC. This is the third year Lucosky Brookman has hosted an event and our third year sponsoring. It was a well attended, fun evening of casino games, featuring a Texas Hold’em tournament. RRBB was very well represented with partner Rob Quick leading the crew, along with partners Howard Condo, Gary Sherman and Andy Fingerhut. As well, Sal Lavadera, Justin Ward, Brian Bauwens and Ryan Fitzgerald were all there participating in the excitement. Most importantly, the event raised a lot of money ($235,000—up 50% from $155,000 last year) and awareness for the “Save a Child’s Heart Foundation.”

ABOUT SAVE A CHILD’S HEART FOUNDATION

Save a Child’s Heart (SACH) is an international humanitarian project, whose mission is to improve the quality of pediatric cardiac care for children from developing countries who suffer from heart disease. SACH is completely dedicated to the idea that every child deserves the best medical treatment available, regardless of the child’s nationality, religion, color, gender or financial situation.

See more about all these stories at http://www.rrbb.com/news-events/

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Five Big Tax Penalties to Avoid

Cut your tax bill down to size

Paying income tax is bad enough, but insult is added to injury if you are assessed any tax penalties. There are numerous no-

nos for individuals and small-business owners to avoid, but here are five of the major offenses in the tax code.

1. Payroll taxes: If a business willfully fails to deposit payroll taxes, the “responsible person” can be held personally liable for 100% of the tax that is due. For this purpose, a small-business owner may be a responsible person, even if he or she has designated another employee to handle payroll matters. Liability may be avoided only if you can show that the failure to deposit the taxes was due to a “reasonable cause.”

2. Required minimum distributions: After you reach age 70½, you must begin taking annual required minimum distributions (RMDs) from qualified plans and traditional IRAs. The required amount of the annual RMD is based on life expectancy tables and your account balances on the last day of the previous year. If you do not comply, the IRS may impose a penalty equal to 50% of the amount that should have been withdrawn (or the difference between the required amount and the amount actually withdrawn).

3. Report of Foreign Bank and Financial Accounts: An investor must file a Report of Foreign Bank and Financial Accounts (FBAR) with the government if he or she had amounts in foreign bank accounts exceeding a total of $10,000 at any point during the prior year. This requirement is designed to discourage taxpayers from hiding funds in offshore accounts. If the violation is willful, a failure to file may result in a penalty equal to the greater of $100,000 or 50% of the balance in the account for each violation. In cases involving fraud, even steeper penalties—including possible prison time—could be imposed.

4. Early withdrawals: For early withdrawals from a qualified plan or IRA before age 59½, you generally owe a 10% penalty tax, in addition to the regular income tax on the distribution. However, the tax law contains numerous exceptions to the 10% penalty, including one for substantially equal periodic payments (SEPPs). If you take an early withdrawal that is not a SEPP or does not qualify under another exception, there is no penalty or regular tax liability if you roll over this amount into a qualified plan or IRA within 60 days.

5. ACA requirements: The Affordable Care Act (ACA) established a health insurance mandate for both individuals and employers. For individuals, the ACA penalty in 2016 for failing to obtain coverage is the greater of 2.5% of annual household income or $695 per person ($347.50 per child under 18), up to a maximum of $2,085 per family. For employers with 50 or more full-time or full-time equivalent (FTE) employees, the penalty in 2016 is generally $2,160 per year for each full-time or FTE employee (but the first 30 full-time employees are excluded from the calculation).

Don’t pay any more to the IRS than you have to. Avoid these major penalties, as well as others in the tax law, to minimize your liability.

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Should You Hire Boomerang Employees?

Five steps to pave the way for returns

Employee turnover is inevitable. Even the best of companies have employees depart for a variety of reasons. They may be dissatisfied with the job, moving closer to family or seeking greener pastures elsewhere. Whatever the cause, you have to recruit and hire suitable replacements and then train them. It is a costly and time-consuming proposition.

Would you bring a former employee back into the fold? It is a tricky question. There are pros and cons to rehiring a “boomerang employee” who wishes to return to your firm.

Consider that the ex-employee made the choice (assuming he or she was not fired) to no longer work for your firm. For instance, the departure may have been rooted in a personality conflict or lack of career advancement. If the bad feelings linger or the path to a higher-level job is still blocked, what will change this time around?

Conversely, hiring a boomerang employee will save you the hassle of hiring and the expense of training another employee. Since you probably know the person reasonably well, it is unlikely there will be any complete surprises. You will also have a good idea about the quality of his or her performance and work ethic. This is not to say that people cannot or do not change, but your prior experience counts.

Before you are actually put in the position of deciding whether or not to rehire a boomerang employee, lay the groundwork for potential rehirings. Here are several steps that may help.

- Don't burn any bridges. Barring unusual circumstances, when an employee notifies you that he or she is leaving your company, handle it with sensitivity. There is no reason to berate or otherwise insult an employee who goes to another firm. Keep things professional.
- Conduct exit interviews. Before the employee packs his or her bags, hold a brief exit interview. Allow the employee to air any grievances and provide feedback. When warranted, act on this information to make improvements.
- Keep the door open. If you think you might want to someday rehire a worker who is leaving—for example, someone who is a crackerjack salesperson—let him or her know. At the exit interview, tell the person that he or she would be welcomed back with open arms. And say it like you mean it.
- Maintain contact. Keep in touch—through professional or personal means—with people you would readily rehire. If their situation changes, they could be in the market for a new job and your place might fit the bill. This could also lead to other business opportunities from referrals.
- Reassess your needs. If an employee who left would entertain a return, consider your current openings. Perhaps the employee has gained new skills that would qualify him or her for a different position. Explore the possibilities.

Of course, no one is saying that you should rehire employees who were fired for just cause, or for abhorrent or criminal behavior. Although there may be some limited exceptions, there is no sense in asking for trouble a second time.

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The Rules for PALs Are Not Friendly

Maximize tax benefits for passive activities

Do you own investment real estate—say, an apartment building—that you rent out to tenants? Real estate can be a valuable and reliable source of income. Of course, the rental income is subject to tax, but the resulting tax liability may be offset by deductible expenses. In some cases, you might even qualify for a loss.

However, there is another wrinkle in the tax law. The loss may be disallowed under the passive activity loss (PAL) rules.

Background: Generally, losses from passive activities can only offset income earned from other passive activities. Any excess passive loss for the current year may be carried over indefinitely to future years.

For this purpose, a passive activity is an undertaking involving the conduct of a trade or business in which you do not "materially participate." That means you don't participate in the business on a regular, continuous and substantial basis. The IRS has issued regulations detailing the requirements for this status. For example, you are considered to be a material participant if you work more than 500 hours a year at the activity.

A real estate rental activity is automatically treated as a passive activity. However, under a special tax law provision, an "active participant" in rental real estate may be able to use up to $25,000 of loss to offset nonpassive income. This exception is phased out for investors with an annual adjusted gross income (AGI) between $100,000 and $150,000. The tax benefit disappears completely if your AGI equals or exceeds $150,000.

Note that the "active participation" test is more stringent than the "material participation" test. The participation must be significant and legitimate. For instance, you might make management decisions, approve new tenants, arrange for repairs and so on. But simply listing yourself as a real estate manager or rental agent is not enough.

Add another complication to the tax equation. Under rules that went into effect in 2013, a 3.8% Medicare surtax applies to the lesser of net investment income (NII) or the amount by which your modified adjusted gross income (MAGI) exceeds $200,000 for single filers and $250,000 for joint filers. The definition of NII covers many income items, such as capital gains, dividends, interest and the like. Significantly, NII also includes income from a passive activity.

One possible way to avoid an adverse tax outcome is to increase your level of participation in order to qualify as a "real estate professional." Typically, to satisfy this test, you have to spend more than 750 hours and more than half of your working time on the activity during the year. Depending on your circumstances, it may be well worth the extra effort.

Alternatively, you might invest in passive income generators (PIGs) at the end of the year. By creating more passive income through a PIG, you can absorb a passive activity loss.

Finally, analyze your situation with your tax advisers. Then develop a plan that takes all the economic and tax implications into account.

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How to Bridge the Retirement Gap

Making up lost ground quickly

What is your greatest financial fear? For some people, it is outliving their retirement savings. Besides the inherent volatility of economic markets and concerns about the viability of Social Security in the future, you may not have been able to save enough to secure a comfortable retirement. As things stand now, you may be afraid you will face a retirement "gap."

But all is not lost. First piece of advice: Don't panic. Even if retirement is imminent, you may be able to make up lost ground quickly or take other steps to protect yourself. Next, here are several practical ideas to consider.

- Bolster your retirement savings. For example, if you participate in a 401(k) plan where you work, you can generally defer up to $18,000 to your account in 2016. This figure is increased to $24,000 for those who are age 50 or older. Just a few years of contributions at or near the maximum level can significantly bolster your account.
- Fine-tune the budget. Make realistic estimates about what you expect both your income and your expenses will be in retirement. Although you will likely be paying less for housing and other items like life insurance—especially if your children are already adults—consider the impact of potential increases in other expenditures, such as travel.
- Downsize. For most people, housing is the largest overall cost, representing on average more than one-third of overall spending. If your children have flown the coop but you're still living in the large home where you raised them, it may be time to downsize. In addition, you might want to move to a state with a different climate, taking state income taxes into account. Of course, various other factors—such as proximity to family and personal preferences—will come into play.
- Refinance your current mortgage. If you decide to stay put, you should probably refinance an existing mortgage if the rate you're paying is higher than current rates. Midway through 2016, mortgage rates have remained historically low. Even if rates rise slightly, which is seemingly inevitable, you may save tens of thousands of dollars over time by refinancing. Note that your interest payments will generally continue to be tax-deductible.
- Do not quit for good. Just because you have reached retirement age does not mean you have to stop working completely. If needed, you could pursue part-time employment, preferably in a line of work you enjoy. For some individuals, working full-time a little longer is also a viable option.

Every person's situation is different. Some of these ideas may work for you, while others will not. The most important thing to do is assess your financial status and go from there.

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Facts and Figures

Timely points of particular interest

IRS Is Hiring—Due to budget cuts and strains on resources, IRS examinations have been going down in recent years, hitting a low of 0.84% last year. But IRS Commissioner John Koskinen recently announced that the agency found enough money in the budget to hire as many as 700 new staffers. Most of the new hires are expected to be conducting audits or coordinating audit efforts with other agents.

Hair-Raising Experience—Generally, if you engage in an activity as a hobby rather than a business, your deductions are limited to the amount of income from the hobby. However, if the activity is a business, you can deduct a loss. A taxpayer in a new case convinced the Tax Court that her hair-braiding salon was a business, although she was assessed an accuracy-related penalty for inadequate records.

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Cutting Down Stress at Work

Some job stress is normal, but you cannot let it run, or ruin, your life. How can you avoid dire consequences? Follow these basic guidelines:

- Focus on improving both your physical and mental states by eating well, exercising and getting enough sleep.
- Turn around negative attitudes that can drag you down and add to workplace strife.
- Communicate with employees. Talking things out usually helps.

When you feel overcome by stress, take a deep breath, focus on the positive and get back to work.

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