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Enjoy Deductions for Summer T&E Expenses

Reap tax rewards for travel and entertainment

What are your plans for the summer? If you have a business trip scheduled for a place you would like to visit personally, you might decide to combine a little pleasure with your business. Similarly, you may invite some of your best clients to your home for a Memorial Day or Fourth of July barbecue or treat them to a night out on the town.

Typically, you can write off a portion of your summer travel and entertainment (T&E) costs if you engage in more business than pleasure. However, you must be careful to keep detailed records to support your claims.

Generally speaking, while you are away from home on business, you can deduct travel expenses such as airfare, meals and lodging, as well as related incidentals such as cab fares and tips. Although most of these costs are 100% deductible, the deduction for business meals is limited to 50%. In addition, deductions may be reduced or eliminated under other special rules for business travel.

Travel expenses may qualify as deductions as long as the primary purpose of the trip is business. That means you can squeeze in some sightseeing or rest and relaxation, but any costs attributable to personal pursuits are nondeductible.

Furthermore, you could be in line to deduct entertainment expenses that are either “directly related” or “associated with” your business. As with the deduction for meals while you are traveling on business, this deduction is generally limited to 50% of the cost.

The key rules for deducting business entertainment are as follows:

- Entertainment is directly related to your business if you actually discuss business during the entertainment and you have more than a general expectation of deriving a business benefit from that meeting. In other words, the entertainment cannot be strictly for goodwill purposes. Also, the entertainment must take place in an atmosphere conducive to discussing business.
- Entertainment is associated with your business if it precedes or follows a substantial business discussion. In this case, you do not have to actually “talk business” during the entertainment. If the client comes from a distance, the substantial business discussion can take place either the day before or the day after the entertainment occurs.

Note that the cost of entertainment that is “lavish or extravagant” is not deductible. But that doesn’t mean you have to skimp either. Be reasonable about the accommodations.

There are, of course, several exceptions to the general rules. For instance, if you hold a company barbecue or other get-together and you invite the entire workforce to the get-together, you can deduct 100% of the cost. But the expenses attributable to any social guests (e.g., a few close friends) you also invite are nondeductible.

Finally, be aware that employee business expenses, including unreimbursed T&E expenses, must be deducted as miscellaneous expenses on your personal tax return. The deduction for miscellaneous expenses is limited to the excess above 2% of adjusted gross income (AGI). But having your company pay T&E expenses under an accountable plan avoids the 2%-of-AGI limit.

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Seven Ways to Step Up SEO

Guidance for small-business owners

How do you push your small company to appear near the top of a website search? It requires a better understanding of search engine optimization (SEO). For some small-business owners, however, this is like learning a foreign language. Here are seven ways to improve your “speech” in this area.

1. Keyword research: Look for keywords or phrases someone would use to find a website in your industry or profession. Then decide which ones to target. Usually, keywords with the highest potential have a high search volume but low competition. Unfortunately, if competitors do similar research, these keywords are of limited value.

2. Technical matters: Search engines use “crawlers” to read your website’s text and code. If it is difficult for a crawler to decipher content, the ranking will suffer. For better results, keep URLs under 100 characters in length, use dashes instead of underscores and avoid special characters. Every page should have a unique title tag that is 65 to 75 characters long. The meta description tag should be unique for every page, up to 160 characters long and contain one to two sentences describing the page.

3. Usability: Search engines try to give users results by taking into account the engagement metrics of a website. Thus, it is important to focus on improving usability. For instance:

- Clearly label different parts of the website so visitors can easily find their way around. Make key areas and contact information easy to spot.
- Work on navigation. Search engines may rank a multitude of a website’s pages simultaneously so users can access a site from pages other than the home page. Without good navigation, someone might be restricted to a single page.
- Develop the architecture. This is the part of your website from which other aspects are built, including form, function, navigation and interface, interaction, and visual design.
- Limit each page to 800 words, with the possible exception of blog posts. Content should contain the relevant keywords for the page. Unique, keyword-rich text on a page can help improve rankings.

4. Content is king: Concentrate on producing fresh and lively content that stands out. It may take the form of a company blog; guides and e-books; or infographics, charts or other visual content. This may attract new links to the website.

5. Social media: As a sign of changing times, social media should be part of an SEO campaign. Consider these suggestions:

- Establish goals for social media.
- Know and recognize your target audience.
- Select your social media channels.
- Connect with people who have lots of followers.
- Develop a social media posting plan.

6. Linking: Links increase the credibility of a website. The total number of links is important, but you should also feature links from a range of diverse and popular domains. But remember that the main search engines have strict rules against unnatural or paid links. Use only trustworthy sources.

7. Delegation: Finally, designate responsibility for SEO to the person in your organization who is best equipped to handle it. In some cases, it may be beneficial to use an outside consultant. Rely on your business advisers for referrals.

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This Retirement Planning Move Avoids Tax

Benefit from a rollover to an IRA

If you receive a distribution from an employer's retirement plan, such as a 401(k), you are generally required to pay ordinary income tax on the payout. However, with a timely maneuver, you can continue to postpone paying the tax until you are ready to make withdrawals.

Basic rules: There is no current income tax liability on a distribution from a qualified retirement plan if you "roll over" the funds within 60 days. For example, if you have a 401(k) account at your job and you are retiring, you may transfer all the funds to an IRA without paying any tax.

In the not-so-distant past, the rollover rules were much more restrictive than they are now. For example, you were required to roll over the entire amount of your account balance with a lump-sum distribution. Now, you might decide to take advantage of a partial rollover. Any portion of a distribution that is not rolled over is taxed as ordinary income.

In addition, rollovers could be used only upon separation from service or upon reaching age 59½. Now, depending on your employer's plan, in-service distributions are permitted.

Nevertheless, certain qualified plan distributions are not eligible for tax-free rollover treatment. The list includes these items:

- Annuity payouts (e.g., regular pension payouts geared to your life expectancy or a period of 10 years or more)
- Required minimum distributions (RMDs) required to be made upon reaching the age of 70½
- Payments to someone other than the employee or his or her spouse (e.g., payments to your child as beneficiary)
- Payments of nondeductible contributions you have made to the plan
- Payments to correct excess contributions or excess deferrals
- Loan amounts treated as distributions by the IRS
- Hardship distributions

Furthermore, if you receive a qualified retirement plan payout, income tax is automatically withheld at a 20% rate, even if you intend to roll over the funds to an IRA within 60 days.

You cannot recoup this amount until you file your income tax return for the year of the distribution. To make matters worse, you may also be assessed a 10% penalty tax for withdrawals prior to age 59½. The penalty is equal to 10% of the taxable portion of the withdrawal.

Key exception: There is no withholding requirement for a trustee-to-trustee transfer. Say that you're age 55 and you are receiving a $100,000 distribution from your retirement plan. If you have your plan administrator directly transfer the $100,000 to the trustee of the IRA, you then avoid both the 20% withholding requirement and the 10% penalty tax.

Of course, there are other factors to consider when you receive retirement plan distributions. For example, you may want to time receipt of a distribution to a year when you expect to be in a low tax bracket. Note that different tax rules apply to transfers made to a Roth IRA.

Ultimate question: Should you roll over to an IRA or not? It all depends on your personal situation. Discuss the options with your professional advisers.

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Be Sure About Estimated Tax Payments

How to avoid underpayment penalties

Even though you just put your 2016 tax return to bed, you cannot rest easy. It is already time to pay attention to your tax liability for 2017. Significantly, you may be required to pay installments of “estimated tax” for this year, especially if you are self-employed or retired.

The next due date for quarterly installments is June 15, 2017. The first one was April 18, 2017, the same as the due date for filing your 2016 return.

Basic rules: Generally, you are required to pay annual income tax in quarterly installments or through payroll tax withholding, or a combination of the two. The quarterly due dates for the estimated tax payments are the same every year: April 15, June 15, September 15 and January 15 of the following year (or the following business day if the due date falls on a weekend or holiday). Thus, the due date for the fourth quarter of 2017 is moved to Tuesday, January 16, 2018, because of Martin Luther King Jr. Day.

If you do not pay the requisite amount of estimated tax during the year, you may be assessed an underpayment penalty plus interest. However, you can avoid any tax problems for the year through any one of the following safe harbor methods:

- Pay at least 90% of the current year’s tax liability. Thus, you will have to make a reasonable estimate of the tax you will owe this year.
- Pay at least 100% of the prior year’s tax liability, or 110% if your adjusted gross income (AGI) for the prior year exceeded $150,000. This takes the guesswork out of the payment because you know the exact amount of your 2016 tax liability.
- Pay at least 90% of the current year’s tax based on “annualized income.” This method works well for certain individuals, such as independent contractors, who receive most or all of their income on a seasonal basis.

How much is the underpayment penalty? The IRS applies a specified percentage to compute the penalty amount for each quarter. For instance, the rate for underpayments in the first quarter of 2017 was 4%.

The IRS provides an estimated tax worksheet in its instructions. But this can get complicated, so do not hesitate to seek professional assistance.

Best approach: Sit down with your advisers to determine the best course of action for the year. This should take into account all the relevant factors for your situation.

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Facts and Figures

Timely points of particular interest

Passport Law—Under a 2015 highway spending measure, your passport may be denied, revoked or limited if you have a “seriously delinquent tax debt” exceeding $50,000. This provision, which does not apply to taxpayers with installment agreements with the IRS and those seeking “innocent spouse” relief, went into effect on December 4, 2015. Now the IRS is finally rolling out the program for certifying seriously delinquent tax debts.

Employee Turnover—Frequent turnover in the ranks can have a negative impact on productivity, morale and corporate revenue. Finding and retaining replacements is a costly and time-consuming process. A recent study says that it costs, on average, six to nine months of salary to replace someone. Better idea: Do your best to keep top talent happy and on board.

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Making It Casual on Fridays

One possible way to boost morale is to loosen the reins. For example, if your company requires strict business attire, you might allow “casual Fridays” during the summer.

This does not mean employees should come to work in ripped T-shirts and cutoffs, but the usual standards may be relaxed one day out of the week. If it is successful, you can continue it all year long.

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