RRBB ACCOUNTANTS + ADVISORS

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RRBB Announcements

RRBB Happenings

As we continue to grow and expand, we continue to seek out and find good, experienced accountants. With that please join me in welcoming three new team members to RRBB. This past month we've had Danielle Weiss, CPA join us as a supervisor in our Somerset office. Danielle has public accounting experience with Wilkin & Guttenplan, PC as well as MSPC CPA's and Advisors. Somerset has also seen the addition of Chris Stout, CPA, who comes to us after nearly 8 years at KPMG's NY Metro Audit Practice, working with multinational life science, chemical, industrial and technology clients. And, Mike Prince, CPA has come back to us after spending some time at Prager Metis CPA, LLC. Both Chris and Mike are joining us as Senior Managers, with much experience and expertise. Again, please join me in welcoming Danielle, Chris and Mike. And, the word is that there are a few entry level staff accountants starting this fall. We are very excited to have such great additions to our team.

Not only have we added a few great accountants, but we've also seen some big strides made by some of our current team members. Please join me in offering congratulations on our staff promotions: Paul Albanese has been promoted to Director. An Hu and Mike Mehaffey have been promoted to Supervisor and Joe Sheehan moves up to Senior. Congratulations to all on your accomplishments!

Return to top

Entering a Roth Through the Back Door

Is this retirement strategy right for you?

The door to Roth IRAs is closed to some high-income taxpayers because of annual limits imposed on contributions. But you may be able to use a "back-door" method that is perfectly legal. This technique may help you preserve more assets for your eventual retirement.

Background: With a Roth IRA, you can never deduct annual contributions, unlike with a traditional IRA. (Deductions for traditional IRAs are generally reduced or eliminated for taxpayers who participate in an employer-sponsored retirement plan.) Conversely, if a Roth has been in existence for at least five years, "qualified distributions" are completely tax-free. For this purpose, a qualified distribution is one

- made after you have reached age 59½;
- paid on account of death or disability; or
- used for first-time homebuyer expenses (up to a lifetime limit of $10,000).

In contrast, distributions from a traditional IRA are taxable at ordinary income rates, with a current top tax rate of 39.6%.

Therefore, depending on your situation, you might prefer to contribute to a Roth IRA rather than a traditional IRA.

The contribution limit for both traditional and Roth IRAs for 2017 is $5,500; $6,500 if you are age 50 or older. (You may combine contributions to both types up to these limits.) However, the ability to contribute to a Roth is phased out for certain high-income individuals. For 2017, the phaseout occurs between $186,000 and $196,000 of modified adjusted gross income (MAGI) for joint filers; $118,000 and $133,000 MAGI for single filers. If you exceed the higher point of the phaseout range, no contributions are allowed for 2017.

To avoid the phaseout rule for contributions, you may decide to set up a nondeductible IRA. In other words, you contribute to a traditional IRA, even though you do not qualify for deductions or you choose not to claim them. With a nondeductible IRA, only the earnings are subject to tax. Then you can convert the traditional IRA to a Roth, thereby entering the Roth through the back door.

For example, say you have contributed $10,000 to a traditional IRA and have $2,000 of earnings. This is the only IRA you have, and you have not claimed any deductions. If you convert the nondeductible IRA to a Roth this year, you are taxed only on the $2,000 of earnings. After five years, any distributions are 100% tax-free.

There is, however, still another obstacle in your way. You cannot designate distributions as coming from a particular IRA. Any distribution from a traditional IRA is treated as coming out on a pro rata basis from all the IRAs you have. This could trigger a bigger conversion tax than expected, especially if you recently rolled over a distribution from a 401(k) or other company plan to a traditional IRA. To reduce the tax conversion impact, you might keep more funds in your plan account before using the back-door approach.

Does this retirement-saving strategy make sense for you? There is no “right” or “wrong” answer. It depends on your personal situation. Consult your professional advisers for guidance.

Return to top

What’s the Tax Payoff from Gambling?

Losses may offset annual winnings

Do you enjoy the thrill of gambling? Whether you end up winning or losing, it is important to understand the main tax rules related to your gambling activities. Otherwise, you may end up owing considerably more tax than you normally would have to pay.

Background: On the federal level, gambling winnings constitute taxable income. It does not matter how and where you win—it could be at a church raffle or the racetrack or a casino aboard a cruise ship. In any case, you owe tax on the income to the federal government. Depending on the type and amount of your winnings, the payer might provide you with a Form W-2G and may withhold federal income tax from the payment.

On the other side of the coin, gambling losses are deductible on your federal tax return, but only up to the amount of your winnings. For example, if you win $10,000 in a lottery this year and then lose $12,000 at the blackjack and craps tables in Las Vegas, your deduction is limited to $10,000. Conversely, if you lose $7,500, the entire loss is deductible, resulting in tax on $2,500 of gambling income.

Although gambling losses are deducted as miscellaneous expenses, at least you avoid a special tax law floor. Generally, miscellaneous expenses are deductible only to the extent that your annual total from all sources exceeds 2% of your adjusted gross income (AGI). But the 2%-of-AGI limit does not apply to gambling losses.

As you might imagine, taxpayers may try to play fast and loose with these rules, so the IRS stays on its toes. You must keep records to back up your claims in case the IRS challenges gambling loss deductions. If you do not have the proper records, you may be leaving tax money on the table.

What sort of records do you have to keep? This can vary according to the gambling activity, as shown below:

- Bingo: A record of the number of games played, cost of cards purchased and amounts collected on winning cards.
- Keno: Copies of the keno tickets that were validated by the gambling establishment, copies of the casino credit reports and copies of the casino check-cashing records.
- Racing (e.g., horse, harness and dog): Records of the number of races, amounts of wagers and amounts won.
- Slot machines: A record of the machine number and all winnings by date and time the machine was played.
- Table games (e.g., blackjack, craps and roulette): The number of the table where you played and casino credit card data indicating where credit was issued.

Note that these records may be supported by other means (e.g., unredeemed ticket stubs from the racetrack). However, the supporting records must be legitimate.

Finally, special rules apply to those who gamble professionally. Among other requirements, you must be engaged in the activity with the intention of turning a profit. If you qualify, the activity is generally treated like a business, so you may be able to deduct an annual loss. Seek guidance from your professional tax adviser.

Return to top

How to Safeguard Your Computer Network

Steps for improving security measures

Would you ask a salesperson to hold onto your wallet or pocketbook while you go shopping in their store? Of course not. Yet, in effect, some small-business owners are doing virtually the same thing with their computer networks when they conduct business online. It is almost like giving hackers a license to steal your money.

What are the potential dangers? There are several ways outsiders may be able to gain access to a company's network. One possibility is to use a password-guessing program that seeks and identifies Internet addresses. Another type of program allows users to scan multiple host computers for vulnerabilities. Also, be aware that hacking may occur from "inside" sources, such as your own employees or others who have access to the business premises or your computer network.

What's more, certain sophisticated computer programs originally designed as theft deterrents may be used for illicit means. In many cases, the hackers are more innovative than the creators. And that is bad news for business owners.

How can you try to stop online thieves in their tracks or, at the very least, slow them down? Consider implementing the following safety measures as part of a comprehensive security program:

- Maintain physical security. Is it possible for someone to walk up to your network and shut the entire system down with one flip of a switch? The network server should be kept in an area that is off-limits to most personnel. You might even install security software that limits access to the keyboard and screen.
- Install a firewall. A firewall simply separates the Internet from your company's computer network. In effect, it screens or blocks outside intrusions that look suspicious. Firewalls can also be used to partition one department of your company from another.
- Review your list of network users. Make sure that passwords are changed on a regular basis. Instruct your employees to use nonsensical passwords rather than common words or family names. In addition, supervisory privileges should be limited to a select group of high-ranking employees or officers. Is file sharing rampant? This may give outsiders easy access to sensitive data.
- Seek protection against computer viruses. The most common method is to install software that can help protect you against the type of viruses that could infect your network. Keep current with the latest updates. Also, keep an eye out for new innovations and improvements.

Naturally, there are no absolute guarantees that these precautions will provide the security you need in all cases. At a minimum, however, taking these steps can result in a good first line of defense. If you don't have the necessary expertise to address these issues yourself, assign responsibility to a qualified staff member or third party.

Return to top

Promote Better Health in the Workplace

Wellness programs may offer benefits

Take notice of these statistics: According to the Centers for Disease Control and Prevention (CDC), more than one-third (36.5%) of U.S. adults are considered obese. In 2008, the estimated annual medical cost of obesity in the United States was $147 billion U.S. dollars, while the medical costs for obese people were $1,429 higher than those of normal weight people.

As concerns about the overall health of workers continue to grow, some companies are turning to wellness programs to help employees improve their health. The benefits can range from reducing employee health insurance claims, to reducing turnover, to simply boosting morale in the workplace. A wellness program can also save your company money through lower health insurance costs and higher productivity from the workforce.

Due to budgetary restraints, you may need to produce maximum results with just a minimum outlay. Here are several steps that might prove beneficial:

- Encourage employees to be physically active. This can be as simple and low cost as starting a “walking club” at lunch. Similarly, a company can provide discounts or some other enticement for using a local gym or fitness center, assuming there is not one on the premises.
- Provide rewards for participation. Typically, a company may offer employees a reduction in health insurance premiums based on participation in various health-related initiatives or offer incentives to join a gym. Employees may not immediately jump on the bandwagon.
- Educate employees. For instance, a smoking cessation workshop may help employees curtail smoking activities or end them completely. Employees who attempt to quit smoking are usually on the honor system, but having others to talk to may help. Smoking on business premises should be banned, if it’s not already mandated.
- Stock vending machines with nutritious foods. Do away with those that offer fattening snacks or high-calorie drinks. If your supplier won’t go along with your plan, consider another vendor. This will show employees that you are truly committed to the cause.
- Conduct regular health screenings. Screenings might take place on an annual or even quarterly basis. A qualified health care professional can check each worker’s weight, blood pressure, body fat, flexibility, etc. Then have the results reviewed by the appointed wellness program manager. Set individual goals based on these findings.

The cost of such a wellness program can vary widely depending on certain factors, such as the size and location of your company. For example, if you can benefit from a plan that costs $50 per employee a year and you have only 20 employees, the annual cost is limited to $1,000 a year. This is palatable for many small companies.

Of course, there are no guarantees, and some commentators claim that wellness programs often provide little benefit. Do the homework to determine if such a program makes sense for your small business.

Return to top

Facts and Figures

Timely points of particular interest

Business Meals—In a new case, a taxpayer, who was a stockbroker, claimed to have spent almost $10,000 on business lunches and dinners with clients. But most of her records didn’t include the business purpose of the meals. Also, some of the taxpayer’s receipts were duplicates and others were illegible. Based on the shoddy recordkeeping, the Tax Court denied her deduction for business meals.

Cash Is King—Frequently, small-business owners have difficulty managing cash flow. It is important to balance “inflow” from sales of goods and services, loans, lines of credit, and asset sales against “outflow,” such as regular expenditures, loan payments and property purchases. Without adequate systems in place, everyday operations may be adversely affected. Do not ignore the potential dangers.

Return to top

Study the Two Education Tax Credits

If your child is going back to college this fall, you may be in line for either one of two higher-education credits:

1. American Opportunity Tax Credit (AOTC): The maximum $2,500 AOTC may be claimed for each student in the family. It is available for up to four years of study.

2. Lifetime Learning Credit (LLC): The maximum $2,000 LLC applies to each taxpayer. So the credit is limited to $2,000 no matter how many children are in school.

Alternatively, you might claim a tuition deduction. But all these higher-education tax breaks are phased out for higher-income parents.

Return to top

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