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ClientAdvisor

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Dear Clients & Friends,

Each year the IRS publishes their tax return examination statistics. You might be surprised who is being targeted for audits. Fortunately, tax planning can serve to reduce your tax and audit exposure. Please spend a few minutes reviewing the IRS audit information and ideas to help reduce your taxes this year. This issue also discusses some of the more popular retirement plan options and how to build a path to financial security after you retire. Feel free to call if you wish to review your situation.

Thanks for your support.

Understanding your audit risk

According to recent statistics, your chances of being audited by the IRS are less than 1%. Sound like a non-event to you? Don't be lured into a false sense of security. The statistic is a blended rate covering many types of incomes and taxpayers. Here are some of the reasons returns were audited.

No adjusted gross income. For AGI of zero, audit risk jumped to over 5%. The IRS benchmarks AGI because it is total income including losses from businesses and investments.

Large adjusted gross income. Audit risk was nearly 2% for returns with AGI over $200,000. Audit risk climbed to 16% when AGI was $10 million or more.

International returns. Due to a focus on offshore tax evasion, the audit rate of international returns was almost 5%.

Estate taxes. Approximately 8.5% of estate returns were audited. Gross estates of $10 million or more were tagged with a 27% audit risk.

Corporation tax. Small corporations experienced up to a 2% audit risk. The risk for large corporations with assets over $20 billion was 85%.

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Everyday Advice

"In America, there are two tax systems: one for the informed and one for the uninformed. Both are legal."

Judge Learned Hand

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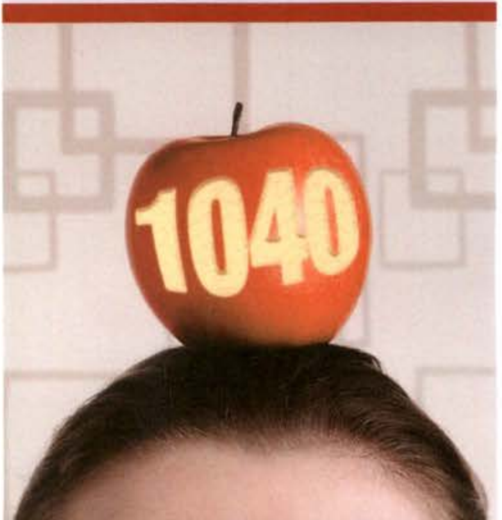
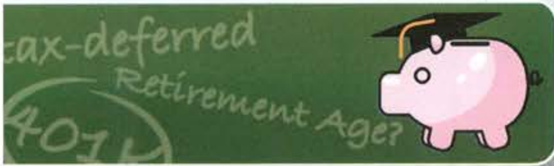


Building financial security for retirement

How can you achieve a comfortable retirement? The steps are deceptively simple.

Start a retirement savings program as early as possible and contribute regularly. This step is simple but vital. The longer and more regularly you contribute, the larger your nest egg will become – even before the compounding provided by growth and earnings. Regular, reasonable deposits wisely invested will easily outgrow sporadic and insignificant contributions.



Deposit funds in tax-deferred accounts. Invest in tax-deferred accounts to the greatest extent possible. If your employer or business offers a tax-deferred plan, such as a 401(k), contribute as much as you can, particularly if the plan provides matching funds. Investigate individual options, such as IRAs, for additional planning opportunities. Why? One of the advantages of tax-deferred accounts is that investments that aren't reduced by taxes will grow and compound at a faster rate. Other advantages include the ability to control your withdrawal rate and the amount of any accompanying tax, and the opportunity to postpone recognition of taxable income until retirement, when you'll likely pay tax at a lower rate.

Establish a portfolio balance suited to your age and personality. As funds within your retirement accounts accumulate, you'll have to decide how to invest them. Establish an investment plan as early as possible. Then follow your plan consistently, revising only enough to keep matters on course, correct for deviations, and respond to unexpected events.

Track your portfolio and re-balance as needed. Maintain a balance among growth, income, and short-term investments, and adjust the ratios as you age. The standard rules of thumb: When you're under forty, you can choose to invest more heavily in moderately aggressive growth vehicles. In your forties and fifties, you might want to become more conservative, shifting your balance toward income-generating investments such as high-dividend stocks.

Once you're retired, plan your withdrawals so your funds will last the rest of your life. To avoid running out of funds, plan for a long retirement. Postpone withdrawals as long as possible, and pay them out carefully. Calculate a workable percentage to withdraw from your portfolio on an annual basis. Assume your funds will need to last at least thirty years. Continue to revisit your investments each year to monitor and rebalance as needed.

A satisfactory retirement program requires planning, discipline, and monitoring. Wherever you are in the process, we're happy to help. Contact us for advice.

Retirement savings plans: so many choices

Tax-deferred retirement plans are government-sanctioned programs enabling you to accelerate your retirement savings by postponing income taxes on funds contributed to and/or earned within the plan. Here are some of the more common plan definitions.

Standard IRAs.

You can deduct your contributions and earnings in your accounts are exempt. Federal income tax applies when funds are withdrawn. Contributions are limited to the smaller of taxable compensation or an annual ceiling of $5,500 for 2016. If you're a high-earner already covered by a retirement plan, you can make nondeductible contributions.

Roth IRAs.

Roth IRAs are subject to the same contribution limits as standard IRAs, though income limitations may apply. Your contributions aren't deductible, but earnings within the account are exempt from federal income tax. Withdrawals are tax-free subject to certain requirements.

SEP-IRAs.

SEP-IRAs are established by your employer, who sets up a traditional IRA for you and contributes up to 25% of your pay. Only your employer can contribute and annual contributions can vary.

SIMPLE IRAs.

SIMPLE IRAs are available to smaller businesses with no other retirement program. Your employer must make a specified matching contribution or a 2% contribution for each eligible employee. You may elect to contribute.

401K Plans.

401(k) plans are employer-provided retirement plans. If your employer offers a 401(k), you may be able to make pre-tax elective contributions through payroll deductions. Your employer may contribute on your behalf and/or make matching contributions based on your elected deferrals. Contributions and earnings are not taxed until withdrawn from the plan.

Ideas to help you organize your business records

Organizing – the art of placing information in a logical order – is key to effective planning for your taxes as well as general business operations. Here are suggestions to help you master the art of organization.

Succession planning

Address succession planning for your critical employees well before a crisis occurs. Document daily responsibilities, skills needed to complete the tasks, and the location of all paper and electronic files. Appoint and cross-train backup staff.

Tax Planning

Be aware of possible tax incentives, such as credits for hiring certain workers and accelerated depreciation methods for business assets. Create a filing system to collect the documentation needed to take advantage of these tax breaks. For example, retain receipts (for asset purchases) and document the details of the purchase. These include the type of equipment, the date and amount of the purchase, the date you began using the equipment, and a schedule of additional related costs that might be eligible for capitalizing. For ordinary deductible business expenses, establish a filing system to store receipts. Typical expenses include car expenses, travel costs, professional magazines, meeting expenses, association fees, and training expenses.

Electronic and paper records

Is your email cluttered with so much mail you don't know where to look for what you need? Aim to make your inbox hold only the current day's emails. Delete non-critical emails. Electronically sort critical emails into folders to eliminate time-wasting searches. Cancel automatic messages that are no longer useful to reduce the deluge.

What about your file cabinets – the ones that hold real paper? Are they stuffed to overflowing? Review and shred outdated documents. If the information might be needed later, scan it into digital files. Consider using document management software.

Organize your desk by shredding documents with sensitive information and scanning older papers into digital files. The most efficient method is to scan, file and shred as soon as you are finished with a document. If you don't have time, consider assigning document organization to specific employees and making it a task to be completed on a daily basis.

You're already busy and you may feel that organizing your records will take more time than you have. But think about why you feel as though your day is overloaded. Is one reason because you're spending your efforts searching through a disorganized office? In that case, mastering the art of organization may save you not only time, but money as well.

Understanding your audit risk

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The need for good records

Be aware that even if you don't fit into any of these categories, your return may still be selected for audit. That's one reason it's essential to keep good records to support all deductions and credits you claim on your tax return for at least three years after filing. Examples of required record keeping include:

- When you deduct expenses for meals and entertainment, the written evidence must show who was in attendance and what business was discussed.
- A home office deduction must have evidence showing your home office is used regularly and exclusively as the principal place of business.
- Certain non-business property that you gift, donate, or intend to pass through your estate requires an appraisal.

Contact us for more information about tax audit issues.

This publication provides only summary information regarding the subject matter.
Please call with any questions regarding how this information may affect your situation.

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ClientAdvisor
Practical Tax & Financial Advice

Tax planning more important than ever

The passage of another extensive tax bill in late 2015 brings numerous changes in tax law that run through 2016 and beyond. Add changes already built into the tax code and you have a tax year that requires attention from virtually every taxpayer to ensure you do not pay taxes that are not required. Here are some key items that may warrant a review of your situation.

Permanence in oft-extended tax laws.

Thankfully you now have the ability to plan on tax law certainty as the following laws are now a permanent part of our tax code.

- $250 Educators expense deduction
- State sales tax as an optional itemized deduction versus taking a state income tax deduction
- Ability for seniors to donate up to $100,000 from a qualified retirement plan to a charitable organization
- Ability to use the American Opportunity Tax Credit for four versus two years

Take advantage of expiring tax rules.

The following tax laws expire at the end of 2016. Plan now to take advantage of these soon to expire tax provisions.

- $4,000 Tuition and Fees Deduction
- Tax-advantaged debt forgiveness for certain home mortgages
- Deductibility of home mortgage insurance premiums

Health insurance changes.

If you do not have health insurance, every month you delay in obtaining this insurance could create a meaningful tax penalty.

Review of your withholdings.

After receiving your prior-year tax return, consider adjusting your withholdings to ensure you do not experience an underpayment penalty. The timing of your payments plays an important role in minimizing this penalty.