Meisel, Tuteur & Lewis, P.C.
Certified Public Accountants
Management Consultants

Thoughts from Outside the Box

OUR PERSPECTIVES

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Dear Clients and Friends,

I hope everyone enjoyed the summer months. I can't believe it's over and we are into the home stretch of this calendar year.

The U.S. economy appears to be strong with the stock market continuing to forge ahead into record-breaking territory. That being said, the last couple of months have been troublesome due to the political unrest in the Middle East. Therefore, we continue to recommend monitoring your investments on a regular basis and consulting with your financial advisors throughout the year.

As we move into the final quarter of the year, it is important to start thinking about year-end planning from an income tax perspective as well as reviewing your business and financial objectives. As always, we are here to help you in achieving your goals.

Very truly yours,
Michael S. Lewis, CPA
Managing Partner

Are You Your Spouse's IRA Beneficiary? Know Your Options.

Franco Fallone, CPA, MST

Typically, individuals name their spouse as beneficiary of their retirement plans. There are multiple options available for a surviving spouse who has been named the sole beneficiary of a decedent spouse's IRA. The first is simply to leave the IRA in the decedent's name and remain a beneficiary. However, there are two other options that are only available to a surviving spouse which may prove to be more advantageous.

The first of those options is to rollover the decedent's IRA into an IRA established in the surviving spouse's name, referred to as a spousal rollover. The second option is to make an election to treat the decedent spouse's IRA as the surviving spouse's own IRA, known as "the election." In both scenarios, the surviving spouse is treated as funding the IRA with their own funds. As a result, the surviving spouse has three advantages over other beneficiaries.

1. The beginning date for required minimum distributions (RMD) is April 1 of the year following the year the surviving spouse attains age 70 ½. By comparison, if the IRA were to remain in the decedent's name, the beginning date would depend on the decedent's age at death. If the decedent died prior to beginning to collect RMD, the surviving spouse would need to begin RMD the year the decedent would have attained age 70 ½ or December 31 following the year of death, whichever is later. If the decedent died after beginning to collect RMD, the surviving spouse would have to receive RMD by December 31 following the year of death. Therefore, a surviving spouse who is younger than the decedent can delay the RMD date by making either of the two elections available to a surviving spouse.

2. If the election or spousal rollover options are not selected, the surviving spouse must calculate the RMD by using the IRS table for single life expectancy. In contrast, if either election is made, the surviving spouse

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Thinking About Selling Your Business? Start Planning Now.

Sean Higgins

Have you decided that it is time to get out of the business you own, but don't have that trusted someone you feel comfortable turning over the reins to? This is a big step in your life, and there are many things to consider beyond getting a great sale price.

Selling your business is not something that happens overnight. It takes time and a plan needs to be put in place in advance, outlining how you will achieve your goal. Below are some tips to get you started.

Throughout the year, you need to keep good, up-to-date and accessible records. This includes professionally prepared tax returns and at least annual financial statements. This accomplishes three important things. It gives a potential buyer the ability to analyze your business, and confidence that there are no hidden issues that may derail a potential sale. It also helps to serve as an annual check to make sure the support required to complete both financial statements and your tax return are in order and thus available to them should the potential buyer want to look at any specific records. And lastly, it is a good exercise for you, the current owner, to step back and take an annual look at the health of your company and make sure it is doing as well as you think it is. Oftentimes, owners are so close to the day-to-day action they may forget to look at the larger picture.

One of the most important things to take into account is how involved in the business you truly are. You may have your hand in every aspect of the business — big and small — and haven't transferred a lot of high-level responsibility to your staff. It takes time to train employees, and a staff that is very self-sufficient and able to run the business on their own with little direction from an owner is a very desirable thing. This will help make the transition period between owners more seamless, and ultimately make your business more desirable.

Another point to consider is vendor relationships. If you have any expiring contracts with vendors or suppliers that you have a strong relationship with, it may be smart to renegotiate them before you sell your business. These relationships have probably been crucial to the success of your business and extending them before you sell will be a very nice selling point that will make your business that much more desirable to a potential buyer.

A final point to take into consideration that may or may not seem obvious is making sure you are selling to the right person. Don't be afraid to walk away from a first offer; it may not be the right offer. For example, you want to ensure you are getting the best deal possible for you, the seller, and not one that may tie you to the purchaser for longer than you wish. Also, accepting a large offer with little money down could prove to be a mistake if the purchaser cannot operate your business successfully and is then unable to make the balance of their payment.

Whether you are thinking of selling your business in the near future or just want to learn more about the process in order to formulate a plan for your future, we at MT&L are always available to help. We can work with you to create a suitable plan and, when the time is right, can guide you throughout the process. ■

"Success consists of going from failure to failure without loss of enthusiasm."

- Winston Churchill

Recent Developments that May Affect Your Private Company's Financial Reporting

Daniel M. Grant, CPA

This past December, the Financial Accounting Standards Board (FASB) and Private Company Council (PCC) met for the first time in order to establish the private company decision-making framework they plan to use to identify the differences in the informational needs of users of private company and public company financial statements. The ultimate goal of the framework is to provide opportunities for private companies to reduce the cost and complexity of preparing U.S. GAAP financial statements. Since its creation, the PCC has moved quickly to recommend alternatives to simplify the accounting for most private companies, while still providing users of their financial statements with information they need.

As a result, in recent months FASB has issued Accounting Standard Updates that affect goodwill, interest rate swaps, and variable-interest entities (VIEs) in common control leasing agreements. The following is a summary of what you need to know and how it will affect your private company.

ASU 2014-02: Provides private companies with an accounting alternative for the measurement of goodwill after it is initially recognized. Private companies that elect the accounting alternative will amortize goodwill on a straight-line basis over ten years, or less than ten years if they can demonstrate that a shorter useful life is more appropriate.

ASU 2014-03: Allows for accounting for certain interest rate swaps to use a simplified hedge accounting approach. A nonpublic entity that is not a financial institution would be able to apply hedge accounting to its receive-variable, pay-fixed interest rate swaps as long as the terms of the swap and the related debt are aligned. If the conditions are met, a company would be able to assume the cash flow hedge is fully effective. Those applying the simplified hedge accounting approach will have until the issuance of their financial statements to complete the necessary hedging documentation. A nonpublic entity will also be able to recognize the swap at its settlement value, which measures the swap without non-performance risk, instead of at its fair value.

ASU 2014-07: Under the new guidelines, private companies can now choose to be exempt from evaluating lessors in common leasing arrangements for consolidation under the VIE guidance, if they meet certain criteria. A private company can choose to apply the alternative when all of the following criteria are met:

- The private company and the lessor are under common control;
- The private company has a lease arrangement with the lessor;
- Substantially all activities between the private company and the lessor are related to the leasing activities between those two entities; and
- If the private company explicitly guarantees or provides collateral for any obligation of the lessor related to the asset leased by the private company, the principal amount of the obligation at inception of such a guarantee or collateral arrangement does not exceed the value of the asset leased by the private company from the lessor.

All new guidance is effective for the first annual periods beginning after December 15, 2014 and for interim periods within annual periods beginning after December 15, 2015. Early adoption is permitted.

As always, please contact your advisor to discuss how these changes affect your private company and what action should be taken for early adoption. ■

An Inside Look

Firm News

MT&L sponsored R Baby Foundation's *Rockin' To Save Babies' Lives* Benefit Concert at the Hammerstein in NYC on July 23. R Baby Foundation is the first not-for-profit foundation focused on saving babies lives through improving pediatric emergency care.

Employee News

Wedding News

Congratulations to **Chase Franklin** on his marriage to Ginamarie DiMaiuta on June 21.

Congratulations to **Thomas Wargacki** on his marriage to Julie Mulcahy on July 17.

Congratulations to **Tammy M. Circkirillo** on her engagement to Kim Gardenier. A wedding is being planned for the summer of 2015.

Baby News

Congratulations to **David Diamond** and his wife, Devon, on the birth of their daughter, Maelin Casey, born on July 5. She joins big brother Nate to the Diamond family.

Congratulations to **Katie Bewalder**, her husband Kevin, and twin sisters, Casey and Paige, on the birth of Dylan Thomas. Dylan was born on August 8, weighing 8 lbs 15 oz and measuring 21″ long.

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Are You Your Spouse's IRA Beneficiary? Know Your Options.

can use the more favorable uniform lifetime table, which is based on a joint life expectancy of the surviving spouse and a hypothetical beneficiary that is 10 years younger.

3. By making the election or using the spousal rollover, the surviving spouse has the ability to name her own beneficiaries and allow the IRA to stretch for a longer period of time. If the surviving spouse dies after her RMD date, the new beneficiaries would need to begin collecting RMD based on their life expectancy or the surviving spouse's life expectancy based on their age in the year of death, whichever is longer. If the surviving spouse dies before the RMD date, then the beneficiary must use the beneficiary's life expectancy or the entire account must be distributed within five years.

If the election or spousal rollover is not utilized and therefore no new beneficiary is named, then the entire remaining balance in the decedent's IRA must continue to be distributed in the same manner under which the surviving spouse was receiving them. This usually results in a shorter lifespan than if the election or spousal rollover is utilized.

There is one instance in which it may make sense not to make the election or spousal rollover. As mentioned earlier, by making the election or spousal rollover, the IRA is treated as the surviving spouse's own IRA. Therefore, distributions from that account before the surviving spouse reaches age 59 ½ will be subject to a 10% early withdrawal penalty. By contrast, if the account was left in the decedent's name, the penalty would not apply as the distributions would qualify as being death distribution from the owner and as such would be exempt from the 10% penalty. In order to avoid this potentially significant penalty it would be advantageous to leave the IRA in the name of the decedent until the surviving spouse attains age 59 ½ . Once the surviving spouse reaches that age and is no longer subject to the 10% penalty, the election or spousal rollover can be made so as to obtain the benefits outlined above.

As you can see, there are numerous options available to couples as it pertains to planning for IRA distributions. Please contact your MT&L advisor to learn which option is best for you. ■

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Tax Update

William Schwarz, CPA, MST

Below is a summary of tax related updates that may affect you or your business. Should you have any questions, please don't hesitate to contact a Meisel, Tuteur & Lewis tax advisor.

- **No Bankruptcy Protection for Inherited IRAs:** We previously reported the Supreme Court agreed to decide whether bankruptcy protection applies to inherited IRAs. On June 12, 2014 the Supreme Court unanimously held that inherited IRAs do not qualify for a bankruptcy exemption, meaning they are not protected from creditors during bankruptcy proceedings.

- **Update on Unreported Foreign Bank Accounts:** U.S. citizens and residents are obligated to report to the Internal Revenue Service (IRS), and pay any taxes owed on, financial accounts and other assets held outside of the United States. Since 2009, the IRS has offered various voluntary disclosure programs to allow non-compliant taxpayers to come clean, pay reduced penalties and avoid prosecution. In June 2014, the IRS announced changes to its existing program. The Streamlined Filing Compliance Procedures were expanded to allow those with more than $1,500 in unpaid taxes and those residing in the U.S. to take advantage of them. The new procedures allow taxpayers to provide three years of corrected or previously unfiled tax returns and six years of foreign account disclosures, thereby avoiding numerous penalties. However, if the taxpayer's failure to comply was willful, he or she is ineligible to take advantage of the Streamlined Procedures.

- **More Enforcement of Responsible Person Penalty Likely:** If an employer fails to properly pay its payroll taxes, the IRS can seek to collect a trust fund recovery penalty equal to 100% of the unpaid taxes from the person who is responsible for collecting and paying the payroll taxes and who willfully fails to do so. A recent report issued by the Treasury Inspector General for Tax Administration has found the IRS has often not taken adequate and timely actions in assessing and collecting the responsible person penalty. The report also makes recommendations for improvements. The IRS has agreed to implement the recommendations, making greater enforcement of the penalty more likely.

- **Owner's New Jersey Withholding Tax Liability Not Discharged by Bankruptcy:** The New Jersey Tax Court has ruled that the bankruptcy of a corporation did not discharge the corporation owner's debt for withholding taxes owed to New Jersey. Even if the corporate-level debt were relieved, the owner was a responsible person who could be held personally liable for that debt.

- **Homestead Benefits Delayed until May 2015:** The recently enacted budget bill that was signed into law by Governor Christie on June 30, 2014, provides that homestead property tax benefits will be paid in May 2015, rather than in August 2014. ■

Tax Tips for Newlyweds

Sean Higgins

According to a recent survey of 13,000 brides and grooms, newlyweds spent an average of $29,858 for the 'big day' in 2013. But don't come back from your honeymoon thinking your financial stress is over. Getting married changes everything – your tax filing status, how much tax you pay, and much more. Let's go through some tips to help you get through your first tax season as a married couple.

First, it's important to get yourselves organized to ensure you will be ready to actually file a tax return. It's vital that the names and social security numbers shown on your tax return match your Social Security Administration records. If there is any discrepancy the return will be rejected from electronic filing and could cause unnecessary stress close to the filing deadline. So, if you plan to change your last name, make sure it's official before writing your new 'married' name on the tax return.

Second, make a list of all the income, assets, and debts that each of you bring into the marriage. This will help you create a savings and debt reduction plan, and help your tax planner to prepare your return.

Next, we strongly recommend organizing your usernames, passwords, and other security information related to important accounts and documents, such as brokerage, retirement, and bank accounts, as well as credit cards, wills, and insurance information. This will help your spouse access important information in case of emergency.

After you have your financial house in order, review your filing status, exemptions, income, and withholding during the year you are marrying. The earlier you do this, the better. This allows you time to tweak your exemptions and withholding to help avoid any 'surprises' come April 15th.

Once you're married, you must file as married, not as a single person, but you can switch your status each year between Married Filing Jointly and Married Filing Separately, depending on your situation. In general, most couples are better off filing Married Filing Jointly, particularly if one spouse is the main bread winner. However, there are legitimate reasons for a couple to file Married Filing Separately. For example, if both of you are relatively high earners, the combined income might bump you into a higher tax bracket. Another common reason to file Married Filing Separately is if you need to write off medical expenses. To be deductible, these expenses must exceed 7.5% of your adjusted gross income, an amount that's easier to achieve filing separate returns. Your MT&L tax advisor can run multiple scenarios to calculate which filing status will be most beneficial to you and your spouse.

Another common situation that is often overlooked is participation in IRAs and other retirement plans, such as Roth IRAs. IRAs have more favorable rules for married couples filing jointly. To contribute to an IRA you must have taxable income. The law allows the spouse with earned income to make an IRA contribution to the IRA of a spouse with no earned income provided a joint tax return is filed. The opposite is true for a Roth IRA. Taxpayers have to earn less than $181,000 if married and $114,000 if single to be eligible to fund a Roth IRA. Just because you qualified for the contribution as a single person, don't assume you can continue to contribute now that you are married.

Starting a new life together is exciting; but it can also be complicated. Speak with your MT&L advisor to discuss the most advantageous tax strategy for you. ■

**Survey conducted by wedding website, TheKnot.com.*