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

Thoughts from Outside the Box

OUR PERSPECTIVES

2nd Quarter 2015 Volume 14 Issue 2

Dear Clients and Friends,

I was reading the newspaper the other day and it struck me how often I'm reading about the same topics day in and day out. One of the most significant topics I keep stumbling across is the prevalence of fraud and identity theft. In fact, according to the Federal Trade Commission, identity theft was once again the number one complaint from Americans this year. We're sensitive to this very real threat and therefore included an article on page 2, outlining how each of you can use your credit report to detect and prevent fraud.

The second topic making news is how the Millenial generation is changing the landscape of business and consumerism. They are currently the largest generation entering the workforce. Ages 18-35, they are highly educated, tech savvy, and quick learners; and they care about more than the bottom line. If you are employing millennials, be sure to read the article on page 3, offering tips on how to engage and retain this generation.

Our economy, as usual, is a mixed bag of news. Happily, we watched the Dow surge in early May after a positive April jobs report was released, indicating our economy is rebounding this spring, much like last year. Gas prices are dropping, and the housing market continues to rebound for the most part. In contrast, the Commerce Department is reporting that Americans are currently spending less and saving more. While this is a good practice individually, it's bad for the economy. The spending numbers indicate an overall lack of confidence about the economy's future.

So what does it all mean? I think it means we are on the right track, and while I do not want to sound like a broken record, I continue to believe and advise 'cautious optimism.' We should always make smart choices about our finances, both spending and saving wisely.

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

Follow us on Facebook:
facebook.com/meiseltuteurlewis

Avoid Your Dream Vacation Home Becoming a Tax Nightmare

Shane Orbach, CPA, MST

As the days become longer and the weather warmer, images of your dream vacation home begin to dance in your head. However, before you rush out to make these visions a reality, you should be aware of several tax ramifications that may guide your decision. A few of the big areas include residency issues, deductibility of mortgage interest and real estate taxes, and the 14-day or 10% rental rules.

State residency issues can be very complex and often nonsensical. Generally speaking, a taxpayer can be taxed as a resident of a particular state if they meet either the domicile test or the statutory test. The domicile test is a matter of intent, or what location a taxpayer intends to make his or her primary residence. The statutory test, on the other hand, is a matter of facts. A statutory resident is an individual who is not domiciled in a particular state but for substantially the entire year maintains a permanent place of abode in that state and spends, in the aggregate, more than 183 days of the taxable year in said state. The courts have determined that substantially the entire year is equal to eleven months.

Based on a taxpayer's fact pattern, it is possible to be a resident of one state based on the domicile test and a different state based on the statutory test. To further complicate the matter, in determining the 183 days used in the statutory test, a day is tallied when the taxpayer steps into the state, regardless of whether they accessed their place of abode located in that state. This is particularly important when determining the location of your vacation home.

To illustrate this scenario, let's use a fact pattern where a taxpayer's primary home is located in New Jersey and they work exclusively in New York City approximately 225 days a year. Further, let's assume the taxpayer buys a vacation home in Southampton, New York where they spend no more than 50 days a year. In this scenario, the taxpayer is a resident of both New Jersey (domicile test) and New York (statutory test). Although they only spent 50 days at the vacation home, the fact that they were in the State of New York for work an additional 225 days makes them a statutory resident.

continued on page 4

Inside this Issue

How Monitoring Your Credit May Help You Detect Fraud

David Diamond, CPA, MBA

A credit score is a significant benchmark indicating your financial well-being. The better your score, the easier it will be for you to secure loans, apply for credit cards, get insurance coverage, and more. A low score will make it difficult to qualify for these things and in some cases can be a factor that keeps you from being chosen for a job. Your personal financial activity has a direct correlation to your score – things like paying bills on time, responsible use of credit cards, and timely loan payments.

Unfortunately, there are factors that are out of your control that can impact your credit score too. For example, now that all personal information is in the digital domain, credit card fraud is a reality we must be constantly aware of. In recent years, millions of credit card users' personal data has been stolen in security breaches at major retail outlets such as Target and Home Depot. Because of events like those, it has become more important than ever to keep an eye on your credit score and monitor any changes to your credit profile.

How to Monitor Your Score

Historically, monitoring your credit score was a difficult and potentially costly process. However, in 2014 the Consumer Financial Protection Bureau (CFPB) began an initiative to have the major U.S. credit card companies make it easier for customers to check their credit scores. In early 2015, the CFPB announced their initiative was a success – most major credit card companies have begun giving customers monthly access to their up-to-date credit scores. The scores are either reported on the users' statements and/or are available via online account access. Now it is much easier to regularly check your credit score and take action if there are any unusual changes.

What to do if you Suspect Something is Wrong

If you do see unusual activity or suspect something is wrong with your credit score, you will need to consult your credit report. The credit report is a detailed profile of your credit history. It shows when you opened and closed accounts, made payments on time vs. late, and provides a score as calculated by the standard formula that all credit reporting agencies use. Unfortunately, individuals in the United States are entitled to only one free credit report per year. That limitation was not affected by the CFPB's efforts. For a fee, all three major credit reporting agencies will provide you with as many credit reports as you wish. Also, there are credit monitoring services available that will monitor changes to your score and alert you to any unusual or suspicious activity.

Some of the things to look for when reviewing your credit report include:

1. Accuracy of your personal information, such as:
   a. Name, address, and phone number
   b. Social security number
   c. Marital status

2. Public information, such as:
   a. Bankruptcy filings
   b. Lawsuits
   c. Tax liens
   d. Criminal records

3. Personal accounts – you should check for accuracy in:
   a. Loan accounts – Are there loans in the report that aren't yours?
   b. Bank and credit card accounts – does anything look unfamiliar? If so, it's possible that someone has fraudulently opened a credit or bank account using your personal info.

If you or your credit monitoring service notices there is something suspicious or irregular happening in your credit report, the first thing you should do is contact your bank or credit card company where the suspicious activity is occurring. Let them know what you see or what you suspect is happening. The earlier you report the activity the better your chances are of limiting any potential damage to your credit score. You should also be proactive and change your online account passwords. Make the password as complex as you can. A recent survey showed the most popular password is still "password." Other common passwords involved the individuals' birthdates, pets, or children's names. Criminals love when you choose a password that is easy to guess. A good way to make it complicated is to use a mixture of lowercase and uppercase letters, numbers, and symbols. Also, do not keep all your passwords in one place! Another important step to take if you suspect fraudulent activity is to contact the three credit reporting agencies (Experian, Equifax, and TransUnion). They can put a fraud alert on your file, which will notify creditors to contact you directly before opening new accounts.

Your credit score is a powerful tool that can help you understand a lot about your borrowing power and overall financial well-being. Now that most major credit card companies have made it simple to access your credit score, it is absolutely in your best interest to view it on a regular basis.

Overwhelmed? For a more proactive (and less hands-on) approach, contract the services of a reputable credit monitoring or identity theft protection company and let them monitor your reports for you.

continued on page 3

Millennials in the Workplace

Katie Bewalder, CPA, MST

It is estimated that by 2020 the newest generation, known as the Millennials, will comprise 50% of the global workforce. Millennials are those individuals who reached adulthood around the turn of the 21st century - generally born between 1982 and 2004. Millennials grew up in a world filled with electronics, the internet, mobile devices and social networks and the events from their childhood have formed who they have become and the ideals they value in the workplace. As this generation becomes the majority of the workforce, the culture is changing significantly. Often this generation is thought of as entitled or disloyal, but in the end they are not much different from the generations that precede them. Below are some tips on how to engage and retain millennials in your company.

Work-Life Balance

Flexibility is no longer a concept of the future – it is something that millennials appreciate and look for when applying for and accepting job positions. Millennials understand the importance of work-life balance to a much greater extent than previous generations, and they desire the flexibility to get their work done at any time and from anywhere as a way to maintain that balance. Thanks to the advances in technology, this flexibility is available if employers are willing to invest in it. It may be as simple as enrolling in a service that allows employees to access their work desktop remotely and perhaps giving them the option to work from home on occasion. Investing in this type of flexibility is good for employers too as it increases productivity and enables workers to get their jobs done without having to adhere to traditional hours.

Workplace Satisfaction

Workplace satisfaction matters more to millennials than monetary compensation. This generation grew up watching their parents work hard to accumulate their wealth and investments; dollars that were depleted during the recession. As a result, they value more than just money and find characteristics like culture, company mission and values to be important. They want to work at a place they truly enjoy and where they feel they make a difference, and research has shown they are willing to receive less compensation to accomplish this. For this reason, it is important that employers keep jobs exciting and challenging. Whether it is by engaging them with challenging new projects or hosting team-building activities outside the office, cultivating a culture of excitement and happiness will make coming to work something to look forward to.

Recognition

Millennials want to feel that what they are doing is important and desire performance-based recognition and promotions. Traditional semi-annual reviews are too infrequent for millennials. They want to know they did a good job and they want to know right away. The best way to achieve this is to recognize their accomplishments often and maybe even publicly, perhaps by implementing a rewards program. This type of recognition encourages millennials to work hard and increases their job satisfaction.

Leadership

Millennials view themselves as leaders and are confident in their ability to contribute to their employer's success. They have a strong desire to contribute from day one. Millennials' need for leadership roles, especially as entry-level employees, has contributed to their reputation as "entitled" in the eyes of older generations. Employers should work to develop leadership capabilities and a leadership mindset in millennials early in their careers, so they are ready to step up sooner into more senior roles. Millennials are more engaged and productive if you let them own their role, drive results and feel like a leader.

Continuing Education and Training

While millennials are confident about their leadership and technology skills, they also know they need training and mentoring to be able to apply those skills. If an organization is willing to provide continuing education and training resources, the reward will be a loyal, productive and engaged employee.

In summary, millennials are well educated, confident, able to multi-task and are skilled in technology. They have high expectations for themselves and a desire to make a difference and be rewarded for their contributions. And although they seek challenges, work-life balance is of importance to them. What once motivated the workplace may need a bit of fine-tuning for the next generation. The millennials are the future of the business world and therefore it is crucial for workplaces to adapt in order to take advantage of their unique skill set and help them be successful. ■

> *I can't change the direction of the wind, but I can adjust my sails to always reach my destination.* - Jimmy Dean

continued from page 2

How Monitoring Your Credit May Help You Detect Fraud

Either way, be diligent. The good news is you have more access to your personal credit information than ever before. The bad news is the bad guys are always finding new ways to get their hands on your sensitive personal data. So keep an eye out for unusual activity and act quickly if you see anything unusual, communicating with all relevant creditors and agencies and taking the necessary steps to resolve the suspected fraud. ■

An Inside Look

Firm News

Meisel, Tuteur & Lewis, P.C. participated in Red Nose Day on May 21, with every team member sporting a red nose as a show of support and participating in fundraising efforts. It is a fundraiser for 12 charities that benefit children and young people living in poverty in the U.S. and some of the poorest communities in the world. To learn more about it, go to **https://www.rednoseday.org**.

Employee News

Wedding bells were ringing in May! Congratulations to two important team members on their nuptials:

Anthony Piccininni and Kristin Mott were married on May 3 at Saint Lucy's Church in Newark.

Tammy Circkirillo married Kim Gardenier on May 16 at Shadowbrook in Shrewsbury.

Congratulations to **Alexandra Laschuk** on passing the CPA exam.

We are excited to welcome **Bridget Culleton** to our team as our newest para professional. ■

continued from page 1

Avoid Your Dream Vacation Home Becoming a Tax Nightmare

If the vacation home is used exclusively for the owner's personal enjoyment and not rented out at any time during the year, the owner can generally deduct real estate taxes and interest on a home mortgage. As it relates to mortgage interest, a taxpayer can deduct interest related to debt secured by their primary home and one other residence, subject to aggregate acquisition debt and home equity debt limits of $1,000,000 and $100,000, respectively. A taxpayer may deduct real estate taxes on their primary residence as well as all secondary homes. However, as a word of caution, real estate taxes are added back to taxable income as a preference item for alternative minimum tax purposes. Thus, you should contact your tax professional to determine your actual tax benefit.

In an attempt to offset the cost of a vacation home, owners may choose to rent out their properties. The tax treatment of rental income and expenses will depend on the number of days each year that a property is rented out verses the number of days the owner spends in the home.

Property rented for 14 days or less each year.

A vacation property may be rented out for up to 14 nights each year without the need to report the rental income regardless of the amount charged. In this case the house is considered a personal residence so the owner can deduct mortgage interest and property taxes just as you do for your primary home. This tax break is sometimes referred to as the "Masters Exemption" since homeowners close to the Augusta National Golf Club can earn in excess of $20,000 renting out their home during the annual golf tournament without having to report the income on their tax return.

Property rented out in excess of 15 days and used by owner for less than 14 days.

In this case, the property is considered a rental property. Since all rental activities are viewed as business, all rental income and related rental expenses must be reported to the IRS. The amount of rental expenses that can be deducted are based on the percentage of days the vacation home was rented out compared to the total number of days used. This scenario may result in a net rental loss for the year.

Owner uses the property for more than 14 days or 10% of the total days the home was rented.

If personal use days exceed 14 days or 10% of the days the home is rented, the IRS considers the property a personal residence and will limit rental expenses to the extent of rental income derived. Thus, a rental loss cannot be taken. It is important to note that time spent maintaining or repairing the property does not count toward the personal 14 day limit.

As you can see, tax laws related to a vacation home can be complicated. We recommend consulting with your qualified tax specialist if you own a vacation home or are considering taking the plunge. ■

Meisel, Tuteur & Lewis, P.C.
101 Eisenhower Parkway
Roseland, NJ 07068-1086

Phone: 973-228-4600
E-mail: info@mtlcpa.com

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

Thoughts from Outside the Box

OUR PERSPECTIVES

Tax Notes

William Schwarz, CPA, MST

The following is a summary of recent tax developments that may affect you, your family, or your business.

2015 Luxury Auto Depreciation Limits Released: The IRS has announced that for autos (not trucks or vans) first placed into service during 2015, the dollar limit for the first year it is in service is $3,160; for the second tax year, $5,100; for the third tax year, $3,050; and for each succeeding year, $1,875. For light trucks or vans (passenger autos built on a truck chassis, including minivan and sport-utility vehicles (SUVs) built on a truck chassis) first placed into service during 2015, the dollar limit for the first year that vehicle is in service is $3,460; for the second tax year, $5,600; for the third tax year, $3,350; and for each succeeding year, $1,975. Finally, for a light truck or van placed into service in 2015, the dollar figure for the second tax year is $100 higher than the figure that applied for such vehicles first placed into service in 2014.

Cents-Per-Mile Valuation of Personal Use: An employee's personal use of an employer-provided auto must be treated as fringe benefit income and valued using one of several methods. One of the acceptable methods allows employers to value personal use at the mileage allowance rate (57.5¢ per mile for 2015). However, the cents-per-mile method may be used only if the auto's fair market value does not exceed $16,000 for autos and $17,500 for trucks and vans (i.e., passenger autos built on a truck chassis, including minivans and SUVs built on a truck chassis).

One-IRA-Rollover-Per-Year Rule: An individual receiving an IRA distribution on or after January 1, 2015, cannot roll over any portion of the distribution into an IRA if the individual has received a distribution from any IRA in the preceding 1-year period that was rolled over into another IRA. However, as a transition rule for distributions in 2015, a distribution occurring in 2014 that was rolled over is disregarded for purposes of determining whether a 2015 distribution can be rolled over provided that the 2015 distribution is from a different IRA that neither made nor received the 2014 distribution.

Limit on Electronic Refunds: Effective January 2015, new IRS procedures limit the number of refunds electronically deposited into a single financial account or pre-paid debit card to three refunds. The fourth and subsequent refunds automatically will convert to a paper refund check and be mailed to the taxpayer. The limit is intended to help combat fraud and identity theft.

New Jersey Electronic Filing Mandate: The New Jersey Division of Taxation is reminding taxpayers that for tax years beginning on or after January 1, 2015 tax preparers are required to file corporation business tax (CBT) returns electronically. In addition, if the taxpayer instructs the tax preparer to make CBT payments on their behalf, the preparer must do so electronically. For tax years beginning on or after January 1, 2016, the regulation provides that all taxpayers and tax preparers must file CBT returns and make payments electronically. The mandate includes all CBT returns, estimated payments, extensions, and vouchers.

New Jersey Use Tax Guidance for Individuals: The Division of Taxation has published use tax guidance for individuals. The guidance explains when a New Jersey resident will owe use tax, when a resident will owe use tax at a rate less than 7%, and when out-of-state purchases are not subject to use tax. ■

continued on reverse

Who Gets Home Mortgage Interest Deduction?

William Schwarz, CPA, MST

The Internal Revenue Service (IRS) has issued Chief Counsel Advice (CCA) 201451027, which addresses the issue of who is entitled to claim a home mortgage interest deduction where the underlying property is owned by more than one taxpayer, and mortgage payments are made by one or both of them.

In general, a deduction for interest is available only to those who are primarily liable on the underlying debt. Where, however, two or more persons are jointly and severally liable for a debt, each is primarily liable for that debt, and each is entitled to a deduction for the interest on that debt that he or she pays.

A taxpayer is generally allowed a deduction (subject to certain limitations) for interest paid or accrued on qualified residence interest, which includes interest paid on acquisition debt with respect to any qualifying residence of the taxpayer. In addition, a taxpayer may deduct, as home mortgage interest, interest he paid on a mortgage on real estate of which he is the legal or equitable owner, even though he is not directly liable on the bond or note secured by the mortgage.

Where more than one taxpayer is liable on a home mortgage obligation, questions may arise as to which taxpayer is entitled to the residence interest deduction. The new CCA addresses three such situations.

Situation 1: Taxpayers are a married couple and are jointly and severally liable on a mortgage. One spouse is deceased at the end of the tax year and the bank issues a Form 1098 (Mortgage Interest Statement) under that spouse's social security number. The surviving spouse files a separate return. Payments on the mortgage may be made from a joint account or from separate funds of either taxpayer.

Situation 2: Taxpayers are an unmarried couple and are jointly and severally liable on a mortgage. The bank either issues a Form 1098 under only one social security number, or under both. One or both taxpayers claim the mortgage interest deduction on their individual returns. Payments on the mortgage may be made from a joint account or from separate funds of either taxpayer.

Situation 3: Related persons co-own a house and are liable on a mortgage note. A bank may issue a Form 1098 under the name of one or both of the co-obligors. Each taxpayer claims 50% or 100% of the deduction. Payments on the mortgage may be made from a joint account or from separate funds of either taxpayer.

After reviewing a number of cases and rulings on the subject, the CCA concludes that funds paid from a joint account with two equal owners are presumed to be paid equally by each owner, in the absence of evidence showing that is not the case. It also says a person who is jointly and severally liable on a home mortgage debt is entitled to deduct all the otherwise allowable interest on that debt, provided that person actually pays all the interest.

The CCA concludes that:

In Situation 1: In determining the amount of interest deductible on the decedent's return, the general rules regarding payment from joint or separate accounts and joint liability should apply. For example, if the decedent paid interest from a joint account before death, his return should reflect one-half of the interest paid from the joint account before the time of death, in the absence of evidence that the interest was paid from the decedent's separate funds. In years following the year of death, the surviving spouse may claim the deduction for interest since he or she is liable on the note, assuming the surviving spouse makes the interest payments and all other requirements are met.

In Situation 2: Since both taxpayers are liable on the mortgage, both are entitled to claim the mortgage interest deduction to the extent of the mortgage interest paid by either taxpayer. If the mortgage interest is paid from separate funds, each taxpayer may claim the mortgage interest deduction paid from each one's separate funds. If the mortgage interest is paid from a joint bank account in which each has an equal interest, it would be presumed that each has paid an equal amount absent evidence to the contrary.

In Situation 3: The CCA concludes that if co-owners of a house are both liable on a mortgage, each one may take a deduction for the amount each one pays, subject to the limitations and requirements of deducting mortgage interest.

If you require clarification on any of these scenarios, please contact your MT&L tax professional. ■