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 can hardly believe it's December and another year has gone by. This past July 1 marks 35 years since I joined the firm as a partner. With a mentor of Stan Meisel and a few years later Herb Tuteur, I couldn't go wrong. Both of these individuals possessed the highest moral and ethical values and were great role models to me.

We are now a firm of seven partners, and I am happy to say that each of our partners started with the firm directly out of college. Four of them have a Masters in Taxation, while the other three have impressive audit backgrounds. The firm has evolved over time and I am very proud to be the managing partner of this group of highly talented professionals. We spend a great deal of time recruiting and subsequently training our staff and are committed to delivering the highest level of service to you. Of course, there is always room for improvement and we welcome your comments and ideas.

I want to take this opportunity to thank all the partners and staff, as well as our clients and friends of the firm, for making Meisel, Tuteur & Lewis a wonderful place to work. On behalf of everyone here, we wish you a wonderful holiday season and a happy new year.

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

Ready to Collect Social Security? Timing is Everything

Franco Fallone, CPA, MST

"When should I begin to take my social security benefits?" This is a common question, but one without a cookie cutter answer. There are many questions that must be answered that are unique to each individual circumstance. Am I in good health? Do I need the additional income now? How long will I continue to work? These questions, among others, need to be factored into the decision making process. The following paragraphs will provide general information on who is entitled to benefits and how the decision of when to apply affects the amount received.

For individuals born from 1943 through 1954, the normal retirement age is 66. This means you can receive the full amount of retirement benefits you're entitled to at that time. However, you can apply for benefits as early as age 62 or as late as age 70. The earlier you start receiving benefits the less you get and the later you start receiving them the more you receive. For example, if your benefit at full retirement age is $1,000 per month, and you elect to begin receiving benefits at age 62, your monthly benefit will be reduced to $750, or 25% less than you would receive at the full retirement age of 66. Conversely, for each year after age 66 that you wait, the monthly benefit increases by 8%. Therefore, if you wait until age 70 to receive your benefits, the monthly benefit would increase to $1,320. That's an increase of 76% over the age 62 amount! However, in most cases it takes at least 10 years of the increased benefits to recoup the income received for the four year period from ages 66–70.

This decision not only affects your benefits, but your spouse's survivor benefits after your death. Upon a retiree's death, the surviving spouse is entitled to the higher of the surviving spouse's own benefits or that of the deceased spouse. Therefore, increasing your own benefits by postponing your retirement date will often increase the benefit for your surviving spouse as well.

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Inside this Issue

Tax Considerations in Divorce

Anthony Pentz, CPA, MST

Going through a divorce can be a very trying, emotional experience with numerous implications to consider. Imperative topics to address and work through include division of assets, custody and visitation rights, and financial support issues, among others. One often overlooked area of divorce is tax considerations. If not taken into account, individuals can be left with hefty tax bills and lost opportunities. This article outlines a few common tax implications for your knowledge, should you or someone you care about be going through a divorce.

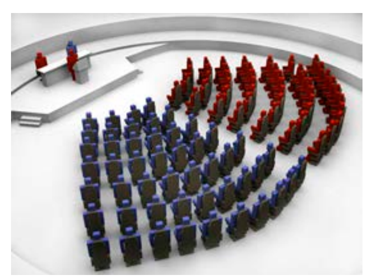
- **Understanding Filing Status Options.** While going through divorce proceedings but still legally married, you have two options: Married Filing Jointly or Married Filing Separately. Filing jointly will, in most cases, produce the most beneficial tax outcome; but this choice needs to be evaluated carefully and the proper allocation of refunds and liabilities need to be determined. After the divorce is finalized, filing options are limited to either Single or Head of Household. It should be noted that while Head of Household tax rates are more beneficial to the taxpayer, this status is only available to the custodial parent (if there are dependent children).
- **Claiming Dependency Exemptions.** The ability to claim a child as a dependent and take the corresponding deduction on your tax return is not predicated on the custodial rights of the parent. IRS Form 8332 allows the noncustodial parent to claim the child on his or her tax return if signed by the custodial parent. It is important to understand income levels, phase-out limitations and Alternative Minimum Tax implications when negotiating dependency claims during the divorce process as one spouse may be able to derive greater tax benefits than the other for these deductions.
- **Understanding Alimony and Child Support**. To oversimplify, child support payments are tax neutral; there is no deduction for the obligor and are not taxable income for the recipient. Alimony, on the other hand, is treated as income to the recipient spouse and a tax deduction for the paying spouse. Understanding this along with future income levels, marginal tax rates and other elements of the agreed upon asset transfers is essential when finalizing agreements. Keep in mind that classifying payments as "alimony" in and of itself does not determine tax treatment. Code Section 71 defines what the IRS will determine to be alimony and should be reviewed.
- **Implications of Liquidations and Division of Assets**. Dividing brokerage accounts, retirement assets, primary and, if applicable, vacation homes all have different tax implications and understanding the tax treatment (ordinary versus capital gains) and basis issues should be part of the calculation. For instance, a primary house sold while a couple is still married is eligible for a $500,000 capital gain exclusion; if sold after the divorce is finalized it would only produce a $250,000 exclusion. Different assets may have different built-in gains when transferred and should be analyzed to understand the net effect. Prior tax attributes such as capital loss carryovers should also be addressed.

The points listed above are only a sampling of the different tax related issues that need to be considered when going through a divorce. Of course, every situation is different and individual circumstances should always be assessed. We recommend speaking with both your financial and legal advisors before finalizing your divorce agreements. ■

Waiting for "Extender Legislation"

William Schwarz, CPA, MST

Year-end tax planning is especially challenging this year because Congress has yet to act on a host of tax breaks that expired at the end of 2013. Some of these tax breaks may be retroactively reinstated and extended, but Congress may not decide the fate of these tax breaks until the very end of this year (and, possibly, not until next year). These breaks include, for individuals: the option to deduct state and local sales and use taxes instead of state and local income taxes; the above-the-line-deduction for qualified higher education expenses; tax-free IRA distributions for charitable purposes by those age 70½ or older; and the exclusion for up to $2 million of mortgage debt forgiveness on a principal residence.



For businesses, tax breaks that expired at the end of last year include: 50% bonus first year depreciation for most new machinery, equipment and software; the $500,000 annual expensing limitation; the research tax credit; and the 15-year write-off for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property.

While most tax professionals expect some extender legislation to be passed, as of the printing of this newsletter it is unclear which provisions will be extended, whether they will be extended on a permanent or temporary basis and if the extension will be made retroactively to apply to 2013. We will continue to monitor the situation and keep you informed of any activity. ■

Are You an Optimist or a Pessimist?

Scott Awerman, CPA

There are a number of factors to weigh in the ever-so-taxing decision between traditional and Roth retirement plans. Traditional IRAs and 401(k)s are tax deferral vehicles which reduce your taxable income for the year in which a contribution is made. You are not taxed on the money which you contribute today but will pay income tax on both the contributions and earnings at time of distribution. Roth plan contributions will be taxed at your current rate and, in return, will distribute contributions and earnings tax-free, assuming certain age and eligibility requirements have been met. How to decide between these two most prevalent choices resembles an intricate dance between a number of factors and personal opinions. Your predictions of the economy and politics to come, confidence in future earnings, and current cash position must all be considered to effectively capitalize on the different incentives offered to us. Some of my accounting brethren would prefer to pose the Roth vs. Traditional conundrum in a different light: are you an optimist or a pessimist?

If your crystal ball is within arm's reach, please ask what the future of tax rates looks like and e-mail me the answer. I will try to remember to give you credit in my Pulitzer-worthy article next quarter. Until then, we are left to speculate. Considering the fickleness of Congress, our lawmakers' obsession with political party representation over actual problem solving, and the myriad controversies at the IRS (read: political group targeting), there's no telling where rates will be in the near future. The optimists would say our congressional problems will soon be resolved and lead to a rebound in our economy. Hopefully a result of this good fortune would be a decrease in tax rates for all to enjoy. A traditional retirement savings plan would be best for these hopeful thinkers as the tax deferral will result in a lower marginal rate when the savings are distributed. Conversely, a pessimist may believe our political woes will continue into perpetuity and the worst is yet to come: tax rates will continue to rise, we will never see the end of Alternative Minimum Tax, and our itemized deductions will continue to be limited. These worriers will be best suited to save via a Roth plan as to take advantage of lower rates today.

The second criterion upon which we must speculate regards future earnings. Future earnings are hopefully easier for us to forecast compared to our ensuing economic climate. For the optimists in the room, we may believe that our hardest working years are still to come. We hope that our labor will bear cash windfalls and increasing income will continue well into our retirement. With higher income, however, comes a higher tax rate. Savers from this school of thought may favor the Roth option as they will be in a higher tax bracket post-retirement. Pessimists will want to defer paying tax on contributions and earnings if they believe their income will decrease once they hang up their hat at work. Many believe this avenue to be more realistic: once we stop working, we will cease the benefit of consistent paychecks and will fall back on the IRAs, 401(k)s, pensions, and other savings accounts we have contributed money into.

Lastly, and perhaps most important, what is your current cash position? If you believe your cash would work for you most effectively elsewhere, deferring income tax on your contributions with a traditional plan may be best. Being able to afford to pay income tax at your current rate on your contributions may lead you to favor a Roth plan. Considering your current cash needs is a thought which must always be kept in mind when weighing retirement savings options.

Whether you're an optimist or a pessimist, we can all agree on one fact: now is the time to start planning for retirement. Weighing your options and capitalizing on their varying incentives can be burdensome. None of us can predict exactly what the future will dictate but we can certainly mitigate surprises through proper planning. Choosing between a Roth and traditional retirement savings plan is a great first step, whether you're just beginning to save or are a seasoned saver. Don't hesitate to reach out to your MT&L advisor if you need help deciding which option is best for you. ■

Things turn out best for the people who make the best of the way things turn out.

- John Wooden

An Inside Look

Firm News

We are happy to welcome our newest staff accountant, **Kyle Eliasof**, to the firm.

Employee News

Congratulations to **Scott Awerman** on his engagement to Alison Leone. A 2016 wedding is planned.

Congratulations to **Joe Boyle**, Marcela, and little Joe. Their newest addition, Patrick, was born at 1:05 AM on September 2. He weighed 7 ½ pounds and was 20 inches long.

Congratulations to **Tom Colangelo** on obtaining his Master of Science in Taxation (MST) from Fairleigh Dickinson University.

Dave Kerner participated in the Races for Faces 2014 charity walk on July 20, held in Riverside Park on the Upper West Side of Manhattan. Sammie's Team raised nearly $1,000. Races for Faces is hosted by myFace, formerly the National Foundation for Facial Reconstruction.

Tammy Circkirillo participated in Making Strides Against Breast Cancer, hosted by the American Cancer Society. The event was held on October 19 in Point Pleasant Beach, NJ, and Tammy's team raised more than $1,000. ■

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Ready to Collect Social Security? Timing is Everything.

If you're divorced, you are entitled to benefits based on your ex-spouse's earnings if the marriage lasted for at least ten years and you are unmarried. You may apply as early as age 62 for reduced benefits. Your benefits will have no effect on the benefits of the former spouse or his/her current spouse.

If you plan on working while receiving benefits and are under your full retirement age, some of your benefits may be reduced. If your earnings are above a certain threshold ($15,480 in 2014), your benefits will be reduced by $1 for every $2 in earnings above that threshold. After you reach full retirement age, there is no reduction in benefits based on earnings. However, your reduced benefits are not lost entirely. At full retirement age, your benefits are recalculated and the reduction in benefits is factored into that formula. Unfortunately, the recalculated amount would still be lower than the benefit you would have received by waiting until full retirement age to begin receiving benefits. Therefore, if you're still working and are under age 66, it is likely better to postpone social security benefits until at least full retirement age.

These are the basic components of social security benefits. There are many other things left to consider before applying for social security, especially for married couples. Consideration should be given to your health and family history, as well as your ongoing financial need. There are strategies available to maximize the benefits over your lifetime, and if you're married, your spouse's lifetime as well. To learn about your options, we recommend visiting your local Social Security office, where they will access your lifetime earnings and provide you with the benefits you are entitled to at different retirement ages. Then, give your MT&L advisor a call to review the options presented. We are always happy to help. ■

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Estate and Gift Taxes Imposed on Transfers by Nonresident Aliens

William Schwarz, CPA, MST

The Congressional Research Service has issued a new report explaining how federal estate and gift taxes apply to transfers by nonresident aliens. A nonresident alien is a noncitizen who, at the time of death or gift, was domiciled outside of the U.S. Unlike the estates of U.S. citizens, the gross estates of nonresident aliens include only property situated in the U.S. The gift tax for nonresident aliens is only imposed on gratuitous transfers of U.S. real estate and tangible personal property situated in the U.S. during life.

Estate Tax for Nonresident Aliens:

The federal estate tax is a tax on the estate of a decedent, levied against and paid by the estate. The determination of federal estate tax liability begins with the "gross estate." Certain allowable deductions reduce the gross estate to the "taxable estate." Then, the total of all lifetime taxable gifts made by the decedent is added to the taxable estate before tax rates are applied. The result is the decedent's "estate tax" which, after the reduction for certain credits, is the amount of tax paid by the estate.

The **gross estate** for citizens, resident aliens, and nonresident aliens includes property in which the decedent held an interest at the time of death. However, the gross estates of nonresident aliens include only property "situated" in the U.S. Real property and tangible personal property physically located in the U.S. constitute property "situated" in the U.S. Shares of stock issued by a corporation incorporated in the U.S., regardless of the physical location of the certificates, and debt obligations of U.S. persons or political subdivisions are also "situated" in the U.S. Like the estates of citizens and resident aliens, the value of the nonresident alien's gross estate is based on the fair market value of the decedent's estate at the date of death. An alternative valuation date of six months following the date of death may be used if the value of the estate is reduced between the date of death and the alternate date. Nonresident alien estates of more than $60,000 in gross U.S. assets are required to file a federal estate tax return.

A decedent's **taxable estate** is determined by reducing the gross estate by allowable deductions. Estates of citizens, resident aliens, and nonresident aliens share many deductions, including estate administration expenses, certain debts and losses, charitable bequests, and the amount of qualified transfers to a surviving spouse, although some differences in calculating these deductions may apply. Estates of nonresident aliens must pro-rate deductions for certain expenses and losses between the gross estate situated in the U.S. and other estate property, wherever situated. Estates of nonresident aliens may only deduct charitable contributions to a U.S. government entity for exclusively public purposes, a U.S. charitable corporation, a charitable trust that uses the gift for its charitable purposes within the U.S., and certain U.S. fraternal societies.

The estate of a nonresident alien may deduct the value of property passing to a surviving spouse if the spouse is a U.S. citizen at the time of the decedent's death. A bequest to a surviving spouse who is not a U.S. citizen won't qualify for the marital deduction unless the property is held in a qualified domestic trust (QDOT) or unless the surviving spouse becomes a U.S. citizen within a specified period after the decedent spouse's death.

The nonresident alien's **estate tax liability** is computed by applying the applicable tax rate to the sum of the decedent's lifetime taxable gifts and his taxable estate. Any available credits are subsequently taken to obtain the amount of tax to be paid by the estate. The following tax credits are available for estates of nonresident aliens: unified transfer tax credit, credit for gift tax, and credit for tax on prior transfers. A unified credit of $13,000 is allowed against the estate tax imposed on estates of nonresident aliens. This credit exempts the first $60,000 of the estate from estate tax.

The estate of a nonresident alien may also be eligible for tax credits that are available to the estates of U.S. citizens and resident aliens if the nonresident decedent was a citizen of a country that has an estate tax treaty with the U.S. The estate calculates the credit according to the proportion of the gross estate situated in the U.S. at time of death.

Gift Tax Imposed on Nonresident Aliens:

Nonresident aliens are subject to the federal gift tax only on gifts of their interest in U.S. real estate and tangible personal

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Estate and Gift Taxes Imposed on Transfers by Nonresident Aliens

property situated in the U.S. Generally, gifts of intangible property made by a nonresident alien, regardless of its location, are not subject to the federal gift tax (except, as mentioned above, for gifts of stock issued by U.S. corporations and debt obligations of U.S. persons or political subdivisions). The major deductions and exclusions available for nonresident alien donors are the annual exclusion, the gift tax marital deduction, and the gift tax charitable deduction. Like U.S. citizen and resident alien donors, a nonresident alien donor may claim an unlimited marital deduction for transfers to his or her spouse, if the spouse is a U.S. citizen. Gifts to a spouse who is not a U.S. citizen are not deductible but are eligible for a spousal "annual exclusion" indexed for inflation ($145,000 in 2014). Gift-splitting is available only if at the time of the gift each spouse is a citizen or resident of the U.S.

A nonresident alien donor follows the same guidelines for determining gift tax liability as U.S. citizens and resident alien donors. First, the donor's taxable gifts for the calendar year and any preceding calendar years are totaled and the tentative tax determined. Second, the tentative tax is again calculated using *only* the total taxable gifts for the preceding calendar years. Third, the result from step two is subtracted from the result of step one and the donor's unused unified tax credit is applied to the remaining amount.

As always, please contact us with any questions you may have related to the estate and gift tax as it applies to nonresident aliens. ■

Understanding Donor-Advised Funds

Carolina Topolewski

As we approach the end of the 2014 tax year, taxpayers are searching for deductions to reduce their taxable income. One such deduction, which not only reduces taxable income but provides a sense of fulfillment, is the charitable deduction. Taxpayers will donate through various mechanisms approved by the Internal Revenue Service (IRS) such as directly to a public 501c(3) organization, private foundations or donor-advised funds (DAF).

Donor-advised funds have been in existence since 1931. Simply stated, a donor-advised fund allows a taxpayer to make an irrevocable contribution to this fund, immediately take the maximum deduction allowed, and allow the donor to recommend the distribution of the funds to qualified nonprofit organizations on their own schedule. It should be noted that gifts of cash are limited to 50% of one's adjusted gross income (AGI) and gifts of stock or real property are limited to 30% of one's AGI. As defined by Kim Wright-Violich, "donor advised funds are designed to remove the barriers of giving, by outsourcing the administration, record keeping, and due diligence to the charities and receiving some protection from charitable solicitations."

Today, there are an array of sponsoring organizations offering this service, including financial institutions, commercial sponsors, educational institutions and independent tax-exempt organizations. It is expected that as Baby Boomers reach retirement age and look for additional estate planning opportunities, DAFs may become more popular, as the funds are not subject to estate taxes or probate. Therefore, it is important that both donors and their advisors investigate the various sponsoring organizations available and select the fund that best complements the donor's charitable goals.

National DAF organizations include the charitable division of for-profit financial services institutions, such as Schwab Charitable, Fidelity Charitable Gift Fund and Vanguard Charitable Endowment Fund. Others are independent organizations such as American Endowment Foundation and the National Philanthropic Trust. These national organizations are issue and geography neutral and have the expertise to handle complex gifts. Their web-platforms provide donors the ability to track the fund's activities and to review an extensive database about the prospective recipients of the charitable giving. National funds also provide fee calculators, allowing donors to determine the exact cost for the service.

Two other types of sponsoring organizations are community foundations and faith-based institutions. These funds target the community level. They offer a wide range of donor education programs. For instance, The Chicago Community Trust invites DAF donors to attend seminars presented by leaders in a particular field.

Public foundations, another sponsoring organization, provide national and international focus on a particular issue or geographic area. Universities and hospitals also have donor-advised funds within their organizations to promote their charitable missions.

If you need help deciding if donor-advised funds are right for you, please contact your MT&L advisor. ■