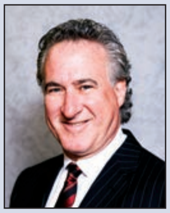
Meisel, Tuteur & Lewis, P.C.
Certified Public Accountants
Management Consultants

Thoughts from Outside the Box

OUR PERSPECTIVES

1st Quarter 2015 Volume 14 Issue 1



Dear Clients and Friends,

It's hard to write this column and not comment on the frigid temperatures we have been experiencing in the Northeast. Inevitably, it impacts us financially, increasing expenses related to heating, snowplowing and fuel, and for many, causing business disruptions and lost revenues. It's frustrating – and expensive – but hopefully spring is not too far away.

Here at the firm, we are in the throes of tax season and everyone is working diligently to meet regulatory deadlines. Of course, we are always here to service your needs and are available anytime to answer your questions. Please never hesitate to reach out by phone or e-mail.

Stay warm and safe this winter. Hopefully it's almost over.

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

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It's the Right Time for an Annual Financial Checkup

Michael S. Lewis, CPA

By now, many New Year's resolutions have crashed and burned. Don't feel bad; you're not alone. According to a University of Scranton study, only 8% of people achieve their New Year's goals. My goals always include eating better, exercising more, and generally being healthier. Needless to say, I am one of the 92%!

Two of the most popular resolutions are save more money and pay down debt. To achieve these goals, I recommend conducting a personal financial checkup. Doing so presents an opportunity to review how you did last year and determine if you are on the right track for the future. Here are some tips to get you started.

Review Last Year. People are often surprised at how much money they spend. Whether it's a morning Starbucks habit, an expensive hobby, or daily living expenses, it's good to know where and how much you are spending. The easiest way to do this is to review last year's credit card and bank statements and compile the data in written form. Once you've determined where money is going, you can assess whether or not

changes are needed. In addition, each year you should request a free copy of your credit report at **www.annualcreditreport.com.** Review it carefully for errors or suspicious activity.

Draft a Budget. Living on a budget doesn't mean you have to spend less. It's simply a way to account for expenses and liabilities, ensure you are saving appropriately, and allow you to maintain the quality of life you desire. A budget should capture fixed expenses such as mortgage and auto payments, liabilities such as student loans and credit card balances, and discretionary expenses such as dining out, hobbies, travel, etc.

Evaluate Your Personal Situation. Did you experience any major changes last year, or anticipate any in the New Year? For example, events such as marriage, the birth of a child, purchasing a new home, financing education costs, job changes, and pending retirement can all impact your spending, savings, and investment plans.

continued on page 4

Inside this Issue

Don't Get Hooked by a Tax Scam

Katie Bewalder, CPA, MST

You've probably heard of 'tax season,' but did you know this is also considered to be the season of tax and identity theft scams? While these scams occur year-round, they tend to be more prevalent this time of year, when individuals are expecting tax bills and refunds.

These scams take many forms. Criminals pose as Internal Revenue Service (IRS) representatives in everything from e-mail refund schemes to phone calls claiming there are outstanding tax liabilities that need to be paid immediately. If you receive an unexpected IRS communication, especially during tax season, be extremely cautious. Contact your accountant for confirmation of authenticity before handing over any personal data or money.

We've listed some of the most common scams below:

Telephone Scams

There are two common types of telephone scams. The first scam is a caller warning of an outstanding tax liability. During this call someone very convincing will claim to be an IRS agent, giving a fake name and even a badge number in an effort to sound credible. Even their caller ID has likely been altered to look like the call came directly from the IRS. They may know a lot about you, such as your name, address, and even the last four digits of your social security number. Most often victims are told they owe money to the IRS and it must be paid immediately through wire transfer or a pre-loaded debit card. If you refuse to cooperate, the caller may become hostile and insulting, even threatening imminent arrest.

In the second type of telephone scam, the caller claims you are due a refund. They will try to obtain private information such as your social security and bank account numbers, supposedly in order to wire you the money.

How can you be sure this is a scam? The IRS never demands immediate payment, sends the police to your house, or requests personal data over the phone.

E-mail Scam

This scam relies on an e-mail that appears to be from the IRS and includes a link to a website intended to mirror the official IRS web site. The e-mail instructs you to update your IRS efile immediately. Although the e-mails and websites may appear legitimate, they are designed to steal your identity. Other times, the e-mail will confirm receipt of your tax return by the IRS and request additional information to process the return.

How can you be sure this is a scam? The IRS never e-mails taxpayers these types of requests.

Identity Theft Scam

In these scams, fraudulent use of the IRS name or logo is used to gain access to financial information in order to steal consumers' identities and assets. They may use regular mail, telephone, e-mail or fax to set up victims. Once your personal data has been obtained, they can commit tax refund fraud, filing a tax return in your name in order to claim a refund. You may discover this fraud when you file your real tax return and the IRS rejects it, thinking you have filed twice.

How can you be sure this is a scam? The IRS will never request detailed or an unusual amount of personal or financial information, such as name, social security number, bank or credit card account numbers or security-related information, such as mother's maiden name.

> *What to do with a mistake: recognize it, admit it, learn from it, forget it.* - Dean Smith

How to Spot a Scam

The IRS respects taxpayers' rights and follows certain protocols, making it easier to spot fraudulent communications. According to the IRS, they will never:

- Call about a tax liability without first mailing a bill. The IRS makes initial contact regarding tax issues in a written letter, sent via regular postal mail;
- Initiate contact by e-mail to request personal or financial information;
- Demand payment without giving you the opportunity to question or appeal the amount owed;
- Require a certain payment method, such as a wire transfer or pre-paid debit card;
- Ask for credit card or debit card numbers over the phone or e-mail;
- Threaten arrest. Warnings of arrest or other police action are designed to frighten you into agreeing to send money or disclose personal financial information. Local police departments will never arrest you for federal tax-related issues;
- Use a website other than **www.irs.gov**. Don't be misled by sites claiming to be the IRS but ending in .com, .net, .org, or anything else.

How to Report a Scam

There are different ways to report a scam if you believe you have been targeted.

- If you receive a suspicious phone call and think you may owe money or be due a refund, contact your MT&L advisor or the IRS directly at 800-829-1040.
- If you believe the call is fraudulent, report the incident to the Treasury Inspector General for Tax Administration (TIGTA) at 800-366-4484 or **www.tigta.gov**. You should

continued on page 3

Saving for Retirement Has Never Been Easier

Alexandra Laschuk

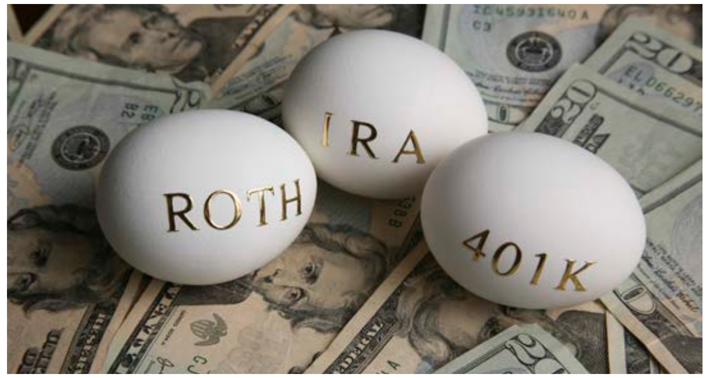
It's never too late or too early to start planning for retirement. Whether you are employed by a company, a small business owner, or a self-employed sole proprietor, there are many advantages to setting up and participating in a retirement plan–and many ways to do so. Even small contributions make a big difference over time; and the sooner you start, the more financially secure you—and your employees—will be.

Perhaps most beneficial to employers is that employer contributions are generally tax-deductible, allowing them to provide employees with a great benefit while getting a tax break themselves. In addition, in some instances employers may even get a tax credit for starting a plan.

Individual employees also benefit greatly when they participate in retirement plans. For instance, employee contributions may be made pre-tax, effectively reducing one's taxable income. Contributions are easy to make through payroll deductions and assets can be carried from one employer to another. Only upon distribution will these contributions be taxed, except in the case of a Roth IRA, whose contributions consist of after-tax dollars.

Below is a summary of four of the more popular retirement plan options that are available to individuals, those who are self-employed and small business owners.

1. **IRA.** Regardless of whether or not you are participating in a company retirement plan, you can also set up and contribute to a Traditional IRA. This can be established through a bank or other financial institution, a life insurance company, mutual fund or stockbroker. Note that for 2014 and 2015, total contributions to all traditional and Roth IRAs is the smaller of your taxable compensation for the year or $5,500; or $6,500 if you're age 50 or older by April 15, 2015. You can deduct contributions in full if you are not participating in a work sponsored retirement plan. If you are participating in one and your income exceeds certain levels, your deduction is limited. Be aware that at age 70 ½ you are required to begin withdrawing from your IRA and these earnings are taxable.



2. **Roth IRA.** A Roth IRA is very similar to a Traditional IRA except that contributions are made using after-tax dollars. While contributions are *not* deductible, distributions are tax-free. You can contribute to a Roth IRA at any age if you have taxable income and your 2014 adjusted gross income is below $129,000 (single) or $191,000 (joint), or $131,000 (single) or $193,000 (joint) for 2015. Unlike a Traditional IRA, minimum distributions are not required and qualified distributions and withdrawals are *not* taxable.

3. **401(k).** The maximum employee contribution is $17,500 in 2014 and $18,000 in 2015 ($23,000 in 2014 and $24,000 in 2015 for those 50 and older). A match or profit-sharing contribution up to 100% of an employee's compensation is allowed, up to a $52,000 cap ($57,500 including catch-up contributions) for 2014 and $53,000 cap ($59,000 including catch-up contributions) for 2015. Advantages to employers include: employer contributions are deductible on the employer's federal income tax return to the extent that contributions do not exceed the limitations described in section 404 of the Internal Revenue Code; and elective deferrals and investment gains are not currently taxed and enjoy tax deferral until distribution.

4. **SEP.** A Simplified Employee Pension Plan (SEP) allows employers to contribute to Traditional IRAs set up for employees. A business of any size, including self-employed individuals, can establish a SEP. You may contribute as much as 25% of your net earnings, up to $52,000 for 2014 and $53,000 for 2015. You can open and contribute to a SEP up until the extended due date of your 2014 income tax return.

As you can see, there are many options to consider. If you have questions about which option is right for you, contact your MT&L advisor. ■

continued from page 2

Don't Get Hooked by a Tax Scam

also contact the Federal Trade Commission at **www.FTC.gov** and use their "FTC Complaint Assistant." Be sure to add "IRS Telephone Scam" to the comments in your complaint.

- If you receive a suspicious e-mail, you should forward it to the IRS at **phishing@irs.gov**. Also, never respond to the e-mail, click on any of the links or open any attachments.

To some, the signs of a scam may seem obvious; but they are alarmingly successful. Tax-related scams play on your natural inclination to avoid trouble with official agencies. Understandable confusion and fear may make it hard to recognize a scam as it is occurring. If you are ever contacted about your tax information, please let your MT&L advisor know. We're here to keep you safe and informed. ■

An Inside Look

Firm News

Meisel, Tuteur & Lewis, P.C. is on facebook! Follow us at **www.facebook.com/meiseltuteurlewis**

Employee News

We are delighted to announce that **Daniel Grant** has been promoted to the position of audit manager. Please join us in congratulating him on this achievement.

Congratulations to **Stephen Andolena** for earning his CPA designation.

Franco Fallone attended the Hedge Fund Tax 101 and K-1 Bootcamp in January, held at the Princeton Club in New York City.

Bill Schwarz attended the 16th Annual Effective Hedge Fund Tax Practices conference, held in New York City.

In the News

Our very own **Daniel Grant** was published in *New Jersey CPA* magazine. His article, "Make a Difference Through Nonprofit Board Service" discusses his personal experience as a volunteer member of the board of directors for the Head Start Community Program of Morris County. Visit the home page of our website to access his article. ■

continued from page 1

It's the Right Time for an Annual Financial Checkup

Identify Goals. One's personal goals, such as wanting to own a beachfront vacation home, travel the world, or leave an inheritance, drive one's financial goals. In other words, knowing what you want to do will allow you to set up a plan that will achieve that goal. Consider short-term goals of a few months up to one year, as well as longer term goals that might take you through retirement and beyond. Your financial advisor can help you forecast what will be needed and create a plan to help you get there.

Create a Savings Plan. A recent Bankrate poll reports that while most Americans do keep a budget of some sort, more than 60% of respondents believe they would be unable to cover a significant, unexpected expense, such as an unexpected medical bill or large household repair. The generally accepted rule of thumb of savings is to have at least six months of expenses set aside in a liquid savings account that can be used in an emergency.

Evaluate Debt. Are you carrying a credit card balance and paying a high interest rate? Many companies offer attractive "balance transfer"rates that might help you save money. And while mortgage rates are rising, they are still very attractive. Consider whether refinancing would save you money each month.

Protect Assets. Don't let an unexpected event such as illness or injury negatively impact your finances. First, review all of your insurance policies and options, including insurance for your home, auto, health, long-term disability and long-term care needs. Ask yourself: Is it enough–or too much? Are beneficiaries up-to-date? Do the deductibles make sense? Second, be sure to update your medical directive, will and estate plan. If you don't have these documents, speak with your financial advisor or attorney as soon as possible. Finally, write down all of your account numbers and important phone numbers (i.e., your accountant, financial advisor, banker, attorney, doctors) and store this information in a secure location that a trusted loved one can access. Should you become incapacitated or die unexpectedly, they will need this information to handle your affairs.

Evaluate Investment Performance. While it is inevitable that portfolios experience peaks and valleys, the key is to determine how you compared to the rest of the market. Are you invested properly, or is time to reallocate? Also keep in mind your risk tolerance level and whether or not it has changed.

Review Retirement Contributions. Are you contributing to all of your available retirement plan options? The article on page 3 outlines some options that may be available to you. Speak with your MT&L advisor if you want to review your retirement savings plan.

Purge Files. Once this planning process is complete, you will likely have an abundance of paper on hand. Determine what you need to keep, scan it to a secure computer, and then shred everything before discarding it. Be sure to backup your computer regularly. For help determining what to keep and for how long, check out the Record Retention Schedule available on our website. Visit **www.mtlcpa.com** and the link can be found under 'News' on the right hand side. Or call us and we'll be happy to send it to you.

Following these steps will help you feel confident that you can reach all of your desired goals this year and beyond. If you need assistance along the way, please never hesitate to call us. ■

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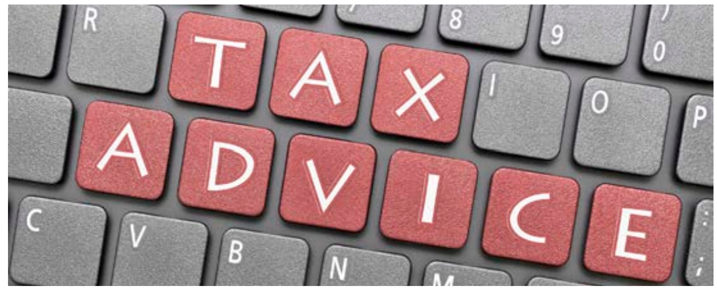
Thoughts from Outside the Box
OUR PERSPECTIVES

Recent Developments in Taxation

William Schwarz, CPA, MST

The following summarizes some important tax developments that may affect you, as well as your family, investments, and livelihood.



New tax-advantaged ABLE accounts: A new law allows states to establish tax-exempt "Achieving a Better Life Experience" (ABLE) accounts, which are tax-free savings accounts that can be used for disability-related expenses. They can be created by individuals to support themselves or by families to support dependents. Contributions to the accounts are made on an after-tax basis, and therefore not deductible. Assets can, however, be accumulated, invested, grown and distributed tax-free as long as they are used to pay qualified expenses. Qualified expenses are disability-related expenses including: education; housing; transportation; employment support; health, prevention, and wellness costs; assistive technology; and personal support services. Conversely, a nonqualified distribution is subject to income tax and a 10% penalty on the part of the distribution attributable to earnings. Each disabled person is limited to one ABLE account, and total annual contributions by all individuals to any one ABLE account can be made up to the inflation-adjusted gift tax exclusion amount ($14,000 for 2015).

The impact of health care reform: The IRS has provided details on how health care reform under the Affordable Care Act (ACA) affects the upcoming income tax return filing season. The most important ACA tax provision for individuals and families is the premium tax credit. Under another key provision, individuals without coverage and those who don't maintain coverage throughout the year must have an exemption or make an individual shared responsibility payment. The IRS stresses that most people already have qualifying health care coverage and will only need to check a box to indicate they satisfy the individual shared responsibility provision when they file their tax returns in 2015. Individuals and families who get coverage through the Health Insurance Marketplace (a.k.a. an exchange) may be eligible for the premium tax credit. Eligible individuals and families can choose to have advance credit payments paid directly to their insurance company to lower out-of-pocket premium contributions. Early in 2015, individuals who bought health insurance through the Marketplace will receive Form 1095-A, Health Insurance Marketplace Statement, which includes information about coverage and any premium assistance received. Individuals claiming the premium tax credit, including those who received advance payments of the premium tax credit, must file a federal income tax return for the year and attach Form 8962, Premium Tax Credit.

Supreme Court to decide if premium credit is allowed for health insurance purchased on federal exchange: A controversy has erupted concerning the ACA's premium credit. The statute makes the credit available for insurance purchased on an exchange established by a state. A federal exchange was established for many states that did not establish their own exchanges. The IRS has issued regulations making the credit available for insurance purchased on a federal exchange. The regulations were challenged in court; one Circuit Court upheld them and another said they were invalid. After these conflicting decisions, the Supreme Court agreed to resolve the issue. The Supreme Court will hear the case in 2015. Its decision could affect about 5 million people.

More guidance on toughened IRA rollover rule: The law states only one IRA rollover can be made in any one-year period of time. Earlier, the Tax Court held the limit applies to all of an individual's IRAs even though the IRS had stated the limit applies to each separate IRA an individual owns. Shortly after this decision, the IRS announced it will adopt the more restrictive view for distributions after 2014. Then, in November, the IRS issued more guidance to clarify the start of the new policy. As clarified, an individual receiving an IRA distribution on or after 1/1/2015 cannot roll over any portion of the distribution into another IRA if they have received a distribution from any IRA in the preceding one-year period that was also rolled over into an IRA. However, a transition rule states distributions occurring in 2014 that were rolled over are disregarded for purposes of determining whether a 2015 distribution can be rolled over, provided the 2015 distribution is from an IRA that neither made nor received the 2014 distribution.

New investment direction rule for 529 plans: The Tax Code provides that a program isn't treated as a qualified tuition plan (QTP) under Code Section 529 unless it provides that any contributor to, or designated beneficiary under, the program may not directly or indirectly direct the investment

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Recent Developments in Taxation

of any contributions to the program (or any earnings on the contributions). However, for tax years that begin after 12/31/2014, the Tax Increase Prevention Act of 2014 allows Code Section 529 QTPs to permit investment direction by an account contributor or designated beneficiary up to two times per year.

Standard mileage rates up and down: The optional mileage allowance for owned or leased autos (including vans, pickups and panel trucks) increased to 57.5¢ per business mile traveled in 2015. But the rate for using a car to get medical care or in connection with a move that qualifies for the moving expense deduction reduced slightly to 23¢ per mile.

Tenant's death extinguished tax lien on jointly held property: A district court held that an IRS lien on a taxpayer's interest in property extinguished at his death because the property was owned jointly with a right of survivorship and the joint tenant survived the taxpayer. Thus, there was no interest left to which the lien could continue to attach.

Sales and Use Tax bulletin updated: The New Jersey Division of Taxation has updated Bulletin S&U 9 that provides information on the taxability of business purchases of various goods and services. It explains when a business owner is required to pay sales tax on a purchase, when a sales tax exemption certificate may be used, and indicates when use tax is due. ■

Unsuspecting Ways Sales and Use Tax Compliance Affects your Business

Shane Orbach, CPA, MST

Businesses focus much of their attention on increasing revenue and reducing expenses, often overlooking the cost of sales and use tax compliance. State and local governments rely on entities conducting business in their jurisdictions to collect and remit sales and use tax on their behalf in a fiduciary capacity. In short, this means businesses must allocate substantial resources to the administration of sales and use tax without the expectation of anything in return. As a result, management often views this obligation as a pure cost center and allocates minimal resources. However, as management often learns the hard way, this can lead to penalties and lost revenue opportunities in the future.

Interpretation of complex sales and use tax rules and regulations often result in errors, omissions and increased audit exposure, regardless of how diligently administered. Since sales and use tax is administered at the state level, each has its own set of rules and regulations regarding what is subject to tax (sales tax base), the rate at which they assess the tax and whether local jurisdictions are permitted to assess an additional tax of their own. Due to all of these differences, sales and use tax must be accounted for and reported to each jurisdiction separately and ultimately independently remitted. Failure to account for, report or remit properly will result in the applicable jurisdiction assessing a business not only the omitted tax but also penalties and interest. Further, five states —Alaska, Delaware, Montana, New Hampshire and Oregon— have decided against assessing a sales tax altogether.

Although I have witnessed countless gaps in sales and use tax compliance, four mistakes seem to occur on a regular basis.

Mistake #1: Failure to keep up with changes to sales tax rates and sales tax bases. For example, recently Arkansas, Maine, Ohio and Virginia raised rates; while Arizona, Kansas and the District of Columbia cut them.

Mistake #2: Failure to procure documentation necessary to substantiate a transaction. For example, provided a properly completed Form ST-8, Certificate of Capital Improvement, is obtained, most capital improvements made in New Jersey are exempt from sales tax. However, without this certificate the transaction is subject to sales tax regardless of the nature.

Mistake #3: Assessing tax on exempt products and services. When this happens, the excess tax collected must be remitted to the applicable jurisdiction.

Mistake #4: Neglecting use tax. The remittance of use tax is necessary when a taxable product or service is purchased and used but the proper sales tax was not charged. This could be the result of buying a product or service from an out-of-state company that is not required to collect sales tax due to a lack of sufficient presence or from an in-state company who has not assessed tax properly. In these situations, a business is required to self-assess and remit use tax on the taxable product or service. To further complicate the issue, if a product is taxed at a rate lower than the sales tax rate in the jurisdiction in which the product is used, use tax must be remitted on the difference. For example, if a product is purchased in Pennsylvania and assessed 6% sales tax and is then used in New Jersey, which currently has a sales tax rate of 7%, a use tax of 1% must be remitted.

As state and local governments leave no stone unturned looking for additional revenue, sales and use tax compliance has come under closer scrutiny. Now is the time to look at the systems and procedures that your business has in place, before the IRS does. ■