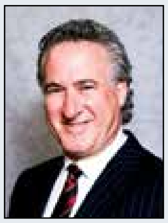
Meisel, Tuteur & Lewis, P.C.
Certified Public Accountants
Management Consultants

Thoughts from Outside the Box

OUR PERSPECTIVES

4th Quarter 2015 Volume 14 Issue 4

Dear Clients and Friends,



I want to take this opportunity to thank each of you for making Meisel, Tuteur & Lewis the firm we are today.

We are thankful to have clients who rely on us for both the big issues and the small ones. We are blessed that many of you have become friends through the years.

We are fortunate to have a dedicated team of professionals who are not only good at what they do, but sincerely care about the outcomes.

On behalf of the entire Meisel, Tuteur & Lewis team, we wish you a wonderful holiday season and a happy and healthy new year.

Very truly yours,

Michael S. Lewis, CPA
Managing Partner

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How Identity Theft Is Impacting Tax Filings

Scott Awerman, CPA

According to the Federal Bureau of Justice Statistics, **17.6 million United States residents fell victim to identity theft in 2014**. This figure is all but guaranteed to increase in the future. Rather than become reclusive, quivering from the thought of falling prey to these crimes, we should face the issues directly through education. Familiarizing ourselves with the safeguards and services available to minimize the risk of tax related fraud is a great first step. Ongoing monitoring is also essential to a well-rounded protection plan. However, despite our best efforts, these precautionary steps are not always infallible.

In an effort to assist victims of identity theft, the IRS instituted the **Identity Protection PIN (IP PIN) program** back in 2011. The goal of this program is to prevent identity theft criminals from filing false tax returns in the hopes of claiming illegitimate refunds. Here's how it works…

Six-digit IP PINs are mailed to eligible taxpayers and need to be placed directly on the face of the current year Form 1040. Without this IP PIN, the filing is not eligible for electronic filing and any

attempt to e-file will result in a prompt rejection. Each year, a new IP PIN is mailed via USPS to eligible taxpayers and the current year tax filing must include that most recent IP PIN in order to be electronically accepted for processing. Filing on paper without the individual's IP PIN is still an option, but the processing time is greatly impaired as additional verification procedures are required for paper-filed, IP PIN-issued returns.

IP PINs are even issued to dependents who are victims of identity theft. While current regulations do not require these IP PINs to be reported on the parent's or guardian's tax forms for 2014 or earlier, the IRS has issued a new mandate starting January 1, 2016. All social security numbers with an IP PIN requirement will now require the presentation of the IP PIN regardless of whether the social security number is for a parent, guardian, spouse or dependent/ qualifying child.

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Inside this Issue

Guidelines for Deducting Meals and Entertainment

Michael Weber

Throughout the year, many companies incur expenses related to entertaining clients, prospects, and even their employees. The good news is that these expenses are considered deductible by the IRS. **However, companies do need to differentiate between which expenses are fully deductible and which are subject to the 50% limitation**. In order to claim these deductions, you must maintain adequate records, including the amount of the expense, time and place, the business purpose and the business relationship of the people involved.

There are two types of deductions for 'meals and entertainment.' The classification can either be "subject" or "not subject" to the 50% limitation. Below are some of the common expenses that qualify for each classification.

Expenses subject to the 50% limitation

- Meal expenses incurred outside the office for employee or client related business matters in restaurants, hotels, etc.;
- Meal expenses incurred outside the office, which are paid for by an employee and reimbursed by the company, for educational, training, or professional meetings;
- Meal and entertainment recreational expenses incurred primarily for the benefit of highly compensated employees;
- Meal expenses which are not treated as compensatory to the individual; and
- Meal and entertainment expenses incurred during client meetings.

Expenses not subject to the 50% limitation

- Meal expenses incurred for occasional large group in-office meetings;
- Meal expenses incurred for group meetings while attending conferences, seminars, or training schools, paid for directly by the company;
- Meal expenses incurred for occasional in-office working breakfasts, lunches, and dinners for the convenience of the employer;
- Buffet-style lunches, coffee, pastries, and snacks for meetings served in or outside the office;
- Meal expenses incurred for occasional overtime work;
- Meal and entertainment expenses incurred for social or recreational purposes such as holiday parties, annual picnics, summer outings, or golf outings;
- Tickets to sporting or cultural events provided on a nondiscriminatory basis to employees; and
- Food and beverage expenses of nominal value made available to employees.

Entertainment expenses can only be deducted if they are both ordinary and necessary in your course of business. The two tests used to determine which expenses are ordinary and necessary are the "directly-related test" and the "associated test."

Directly-related test criteria

- You must show that the main purpose of the combined business and entertainment was in the active conduct of business;
- You did engage in business with the person during the entertainment period; and
- You had more than a general expectation of receiving income or some other specific business benefit at some future time.

Associated test criteria

- You must show that the entertainment is associated with the active conduct of your trade or business; and
- The entertainment is associated directly before or after a substantial business discussion.

Entertainment expenses are generally deductible when they are in a clear business setting and there are no substantial distractions that would prevent you from actively conducting business. Some common expenses that may not be deductible are meetings or discussions that take place at a sporting event, nightclub, or theater.

Maintaining adequate records is your only safety net when attempting to deduct any expense as 'meals and entertainment.' The more detail you can provide regarding the expense and its purpose, the better. Also, be sure to separate expenses that are being classified as 'meals and entertainment' from those already classified as travel expenses. For example, if you incur meals on an out-of-town trip and have deducted those expenses under 'travel,' be sure you don't include them as 'meals and entertainment' as well. At the end of the day, clients and employees enjoy receiving perks from their advisor or employer. So be generous and go out and entertain; it will create goodwill and a tax break! ■

The Benefits of Social Media for Small Businesses

Katie Bewalder, CPA, MST

A recent study performed by *Limelight Network* has indicated that people are spending more time online. In 2015, 45% of respondents spent more than 15 hours per week online outside of work, up from just 23% in 2014. But more interestingly, the report noted that social networking is now the most popular online activity. According to a 2015 study done by the Pew Research Center, nearly two-thirds of adults now use social networking sites. So with all of this online traffic, have you considered using social media as part of your marketing strategy? If not, now is the time.

What are some of the benefits of using social media for your small business?

- ***Reduces your overall marketing costs.***
  Social networks are a cost effective way to market your business to potential customers. It doesn't have to cost anything to promote your services or products on Facebook, pin a product photo to Pinterest, or tweet a message about a current discount being offered. All it costs is the time you spend doing so.
- ***Shows your business' unique personality.***
  Social media gives you the ability to humanize your business, making it easier for you to connect with your customers. Social networking sites are a great way to display your business' personality, as well as behind the scenes information about you, your employees, your office, and more. Having this type of interaction with your followers can help build loyalty.
- ***Offers better customer service.***
  Customers using any of the common platforms, such as Facebook or Twitter, are able to communicate directly with you when they have comments, questions, or concerns. As a result, you will be able to respond quickly and in a public format that allows other customers to see the quality of your customer service. Consumers who receive a quick response are more likely to recommend your business to others.
- ***Provides value to your customers.***
  By using social networking, you can provide your target market with educational or entertaining blogs, posts, or tweets that add value your customers will appreciate. In addition, it can position your business as an expert in the industry. By sharing content on social media, you can also get in front of interested readers who may visit your website, like or share your content on their own social networks, and link to it from their own domains.
- ***Potential customers can validate your business.***
  When a customer mentions your business in their social media posts, it boosts your reputation and increases the chances that someone else is going to give your business a try the next time they need your services. Just like browsing the reviews on Amazon before purchasing a product, checking out your Facebook page to see what current customers think of your business can have a large impact on whether or not they will consider giving you their business.

So now that you have seen the benefits, how do you get started?

- ***Begin with a strategy.***
  Social media is about connecting to your audience on an authentic level. To do that, you need to understand your current and potential customers. Start by defining your audience, as well as the key marketing messages you want to communicate to them. Once you have done this, determine which social networks they prefer. All social media channels are not created equal, and it's best to make sure that you focus your efforts on the right channels.
- ***Start small.***
  Social media takes time and energy, so it is best to start small. Set yourself up for success by starting with a manageable load, such as one or two platforms. Eventually you can broaden your online presence to other social networking sites.
- ***Monitor and share.***
  Incorporate social media into your daily routine. Make sure to monitor your social platforms for comments or questions and respond quickly. Add value by posting original content or by sharing online items relating to your industry. While you can certainly use social media to promote your business, announce new products, and highlight key personnel, make sure to include educational and entertaining elements as well.
- ***Analyze your results.***
  Tracking performance is the best way to identify which tactics are working and which aren't. Adapt your strategy accordingly and you will succeed.

If you haven't already jumped on the social media bandwagon, now is the time. And while you are online, check out our Facebook and LinkedIn pages! ■

An Inside Look

Tammy Gardenier raised $2,186 for Making Strides Against Breast Cancer. She participated in the Point Pleasant Beach Walk on October 18.

Tom Wargacki and Julie Mulcahy celebrated their wedding on November 14 at the Brotherhood Winery in Washingtonville, NY.

Daniel Grant attended the three-day E.D.G.E Leadership Conference in San Antonio, Texas this past August. ■

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How Identity Theft Is Impacting Tax Filings

You are eligible to receive an IP PIN under three circumstances:

1. You received an IP PIN last year;

2. You received a CP01A or CP01F letter from the IRS; and/or

3. You filed your last tax return as a resident of Florida, Georgia or the District of Columbia.

Informing the IRS that your identity was stolen is the first step to receiving a CP01A letter. The Service will work with your tax team to have an identity theft indicator placed on your account and have an IP PIN issued. It's also important to note that you need not be a victim of identity theft in order to acquire an IP PIN; you must simply qualify under one or more of the aforementioned conditions. For example, Florida, Georgia and D.C. have been identified as locations having the highest per-capita percentage of tax-related identity theft. Simply being a resident of one of these places makes you eligible to participate in the IP PIN program.

If you've misplaced your IP PIN, fear not; the IRS has retrieval procedures available to taxpayers. The online registration process on the IRS's website requires that you provide specific personal information as well as answering a series of specific questions in order to confirm your identity. This strict process grants access to current year IP PIN information. Replacement IP PINs are also available by calling the IRS. Note, however, that the use of a replacement IP PIN will flag your tax return for greater review procedures and increased processing times, perhaps delaying anticipated refunds.

Unfortunately, we cannot completely eradicate the threat of identity theft. With safeguards such as the IRS IP PIN program, however, we have tools to help us fight fraudulent attempts to steal our identity. Your tax team at Meisel, Tuteur & Lewis can assist you in determining whether you are an eligible participant in this program. Together, we can continue to keep your identity safe while taking important steps to help you prevent tax-related fraud. ■

Toy Drive 2015

MT&L is hosting a toy drive to benefit the **Bristol-Meyers Squibb Children's Hospital** at Robert Wood Johnson University Hospital. Donate new, unwrapped toys or clothing for children ages newborn to 21 years old. Stuffed animals, stuffed toys, and latex balloons cannot be accepted. **Donations are being accepted in our office until December 9.**

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

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

OP144-15

Dealing With the "Kiddie Tax"

Franco Fallone, CPA, MST

In an effort to lessen a family's tax burden, parents often transfer assets to a child to try to take advantage of a child's lower tax bracket. However, the IRS is well aware of this strategy and, in 1986, enacted rules to make it much more difficult to successfully utilize the child's lower tax rate, forcing the child to pay tax at the parents' rate. This is commonly referred to as the "kiddie tax."

The kiddie tax is a provision in the tax code that taxes the investment income of a dependent child at the parents' tax rate. More specifically, the kiddie tax applies to a child who:

1. Is under the age of 18 or is a full-time student under the age of 24 whose earned income doesn't exceed one-half of his support;
2. Has a least one living parent at the end of the year;
3. Doesn't file a joint income tax return; and
4. Has unearned income over a prescribed amount during the tax year. That amount is $2,100 for 2015 and is indexed for inflation.

A child's investment income that exceeds $2,100 is taxed at the rates that would apply if the income was included on the parents' return.

There are several strategies available to minimize or even eliminate the kiddie tax.

The first is to **keep the child's taxable income below the $2,100 threshold**. This can be accomplished by investing in growth stocks or mutual funds that do not pay dividends, investing in tax-free municipal bonds, or investing in vacant unimproved land which is expected to appreciate in value.

A second strategy is to **transfer assets into qualified tuition plans and Coverdell Education Savings Accounts**. Assets in these accounts grow tax-free if used for education expenses and therefore are not subject to the kiddie tax on an annual basis.

Another strategy is to **have the child provide more than one-half of his support so that he is not subject to the kiddie tax rules.** There are two ways to go about this. The

first is to have the child work during the summer and on school breaks, increasing his earned income and using that income for his support. Parents that own their own business can employ their child in a bona fide position that is appropriately documented at a reasonable hourly rate. The second way is to reduce the amount of support that a child needs for the year. Since college costs are typically the largest portion of support for 18–23 year olds, increasing a child's scholarship award reduces the amount of support needed and can help pass the support test.

Having the child **avoid full-time status by attending school part-time** is another strategy that can be utilized. This is especially attractive when a child is unsure about attending college or the cost of full-time tuition is prohibitive. A child could also postpone attending college until after age 23.

Finally, parents can **forgo the dependency exemption for their college aged child and allow the student to utilize education credits against the kiddie tax**. Often parents are subject to the alternative minimum tax or cannot use the education credits because their income is too high. As a result, there is no change in the amount of tax paid by the parents. By electing to forego the dependency exemption they would otherwise be allowed for their college student child, the child could potentially be eligible to use the education credits to partially offset or eliminate the kiddie tax.

As you can see, it's very easy for a child's income to become subject to the kiddie tax. However, there are options that may be available to you that can minimize its effect. Contact your Meisel, Tuteur and Lewis advisor to discuss your particular case in detail. ■

Tax Notes

William Schwarz, CPA, MST

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

- **Home Mortgage Interest Deduction Doubled for Unmarried Co-Owners**

  In a reversal of a recent Tax Court decision, the Ninth Circuit Court of Appeals concluded the tax law's limits on the amount of debt eligible for the home mortgage interest deduction are to be applied on a per-individual basis, and not a per-residence basis, as the IRS has long maintained. The current eligible amounts are $1 million of mortgage "acquisition" debt and $100,000 of home equity debt. Thus, for the unmarried co-owners in the case, their collective limit for the home mortgage interest deduction doubled from a maximum of $1.1 million to a maximum of $2.2 million acquisition and home equity debt.

- **Nanny Tax Threshold Increases to $2,000 for 2016**

  The Social Security Administration has announced that, for 2016, cash remuneration paid by an employer for domestic service in the employer's private home isn't FICA wages if the amount paid during the year is less than $2,000 (up from $1,900 for 2015).

- **Increased Penalties for Failure to File Correct Information Returns**

  The recently enacted Trade Preference Extension Act of 2015 has increased the penalties associated with the filing of 1099 forms. Effective with respect to 1099 forms required to be filed after December 31, 2015, the penalty for failure to file a form 1099 is $250 per non-filed form, up from $100. If the filing is corrected within 30 days of the form's due date, the penalty is reduced to $50, up from $30. If the non-filing is considered to be intentional by the IRS, the penalty is increased to $500 per non-filed 1099, up from $250.

- **Treatment of the Cost of Internet Domain Names**

  On October 23, 2015 the IRS released *Chief Counsel Advice 201543014*, which analyzes the tax treatment of several fact patterns involving purchased internet domain names. The document looks at the purchase of generic and non-generic domain names as part of an acquisition of a trade or business or as a separate purchase, as well as when the domain name qualifies as a trademark or does not. In all cases, the domain names are determined to be amortizable *Code Section 197* intangible assets. Thus, the cost to acquire a domain name must be capitalized and amortized over 15 years.

- **U.S. Expatriations Continue at a Record Pace**

  1,426 individuals renounced their U.S. citizenship within the meaning of the Internal Revenue Code during the third quarter of 2015. This is up from the record high of 1,336 which was established during the first quarter of 2015. It has been speculated that the recent increase in expatriations has been caused by the complexities of U.S. tax compliance and the Foreign Account Tax Compliance Act (FACTA). ■