Meisel, Tuteur & Lewis, P.C.
Certified Public Accountants
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Thoughts from Outside the Box
OUR PERSPECTIVES

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What You Need to Know Before You Sign Your Next Bank Loan

Daniel Grant, CPA

Bank loans are the most common source of business and commercial financing, with rates that are generally affordable compared to other sources of capital. However, increased oversight of banks has brought a renewed emphasis on bank loan covenants, which can put constraints on a business's growth, increase the overall cost of a loan, and raise business risks. That is why understanding the terms of your loan covenants are so important, especially when these covenants could require testing as soon as one month after signing your loan. Loan covenants are often represented in terms of financial ratios that must be maintained on a monthly, quarterly, or annual basis; several common examples are included below.

Current Ratio: This ratio measures a borrower's ability to meet its current obligations and the higher the ratio, the greater the business's liquidity. The current ratio is measured by dividing current assets by current liabilities. Banks typically like this ratio to be greater than 1.25x.

Average Collection Period Of Receivables: By dividing accounts receivable by average credit sales per day, you can calculate your average collection period in days. This will tell you the extent to which your operating capital is tied up in receivables. For example, if your average collection period is 90 days and your credit terms are 30 days, your collection procedures may need improvement or some of your larger customers may be well past due.

Inventory Turnover Ratio: This ratio is calculated by dividing cost of sales or materials by average inventory in a given time period. This ratio can be used to determine how many times your inventory has turned over. A low turnover implies poor sales and, therefore, excess inventory. A high ratio implies either strong sales or lower inventory levels due to ineffective purchasing.

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Dear Clients and Friends,

As I write this column in early September 2017, I am reminded of another I wrote in February 2013. I talked about the economic roller coaster we were experiencing and a fiscal cliff that was narrowly avoided (although back then we had to fall off of it first). We were left with answers to some questions and a great deal more that needed to be resolved. At that time, there were a myriad of discussions surrounding the need for a balanced approach to deficit reduction and the need for job creation.

3 ½ years later it feels like déjà vu. For now, we have avoided a default on the national debt and averted a government shutdown; but once again face a pending fiscal cliff at the end of the calendar year.

We receive many questions about how tax reform will impact businesses and individuals, but for now remain in a holding pattern as Congress returns to session to revisit this topic and so much more.

Worldwide, there continues to be some unrest, as recent hurricanes impact millions of lives, North Korea continues to threaten our nation and others, and our relationship with Russia grows increasingly uncertain.

Legislatively, September could be a big month. As always, we're diligently monitoring the situation and will update you as relevant changes occur. Be sure to contact us with any questions or updates you may have about your own lives and businesses.

Very truly yours,

Michael S. Lewis, CPA
Managing Partner

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A Simple Explanation about IRA Required Minimum Distributions

Franco Fallone, CPA, MST

An Individual Retirement Account (IRA) is a retirement savings account that most working individuals have established at some point in their lives. IRAs can be set up for individual contributions, but are also commonly created as a result of changing jobs and needing to rollover a company 401(k) or pension plan. When these funds are not needed for immediate retirement income, the general rule of thumb is to postpone distributions until one is required to do so. Postponing allows the IRA to grow tax-deferred for as long as possible.

However, the IRS doesn't let you defer taking distributions forever. A required minimum distribution (RMD) needs to be taken from a traditional IRA, SEP-IRA or SIMPLE IRA for the year the owner attains the age of 70 ½. The initial distribution may be postponed until April 1st of the following year, but the RMD for each subsequent year is due by December 31st of the applicable year. It is important to note that RMD's do not apply to a ROTH IRA.

How the Required Minimum Distribution is Calculated

The RMD is calculated by taking the total IRA account balance at the end of the preceding year and dividing it by a life expectancy factor established by the IRS, which is based on the owner's age or jointly utilizing the age of the owner along with the age of the designated beneficiary of the IRA.

There are three tables issued by the IRS to determine the denominator of the fraction. The first is the *Uniform Life Table*, which is the default table. The second is the *Joint and Last Survivor Table*, which is used when the owner's spouse is more than ten years younger than the owner and the spouse is the sole beneficiary of the IRA. Since this table is utilizing two lives, the distribution period is longer than the Uniform Life Table. The third and final table is the *Single Life Table*, which is typically only used for post-death distributions to beneficiaries.

If an individual has multiple IRA accounts, the RMD calculation is performed for each account separately. However, the total distribution may be taken in any combination of one or more IRA accounts. While the RMD is the minimum that needs to be distributed in a tax year, there is no limit to the amount that can be withdrawn.

It is imperative the RMD be made every year. If not withdrawn by the deadline, the IRS applies draconian penalties equal to 50% of the distribution that was not taken.

There are many more intricacies involved with RMDs, as well as potential tax planning opportunities available to the IRA owner and/or beneficiaries that are beyond the scope of this article. If you have any questions on IRA required minimum distributions, please contact your Meisel, Tuteur, and Lewis professional to explore potential strategies that may apply to your particular situation. ■

Cloud Storage: Reducing Costs and Increasing Security

David Kerner

Amazon defines cloud storage as a simple and scalable way to store, access, and share data over the Internet. More and more businesses are choosing to store their data in the cloud as the technology becomes more affordable and prevalent. Originally cloud storage was geared toward the home user, but in recent years these technologies have been optimized and adapted to suit businesses of all sizes.

Below are a few of the many advantages to storing your business data in the cloud.

Cost Savings. Switching to cloud storage can save your business money. Cloud storage tends to be more affordable because infrastructure and service costs have been distributed across many businesses. Switching to the cloud can also reduce or even eliminate the need for hardware, such as servers and a local backup infrastructure. Since much of your server hardware may no longer be necessary, this would in turn lessen your IT support costs as well since you would not need to pay employees or consultants to maintain this equipment, although someone should maintain responsibility for handling software and operating system updates and patches. In many cases, depending on the nature of your business, all that would be necessary is a computer with an internet connection.

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Divorced or Separated—Tax Information to Know

Andrew R. Fink, CPA, MST, NAEP

The following is information you should know if you are separating, divorcing or are recently divorced. Changing your name and address is just the beginning. Here are more tips to keep in mind:

1. **Alimony Paid:** You can deduct the alimony paid to or for a spouse or former spouse that is under a divorce or separation decree. This is an above-the-line deduction and not an itemized deduction. You must enter the spouse's Social Security Number or Individual Identification Number on your tax return. Any voluntary payments made outside a divorce or separation decree are not deductible.
2. **Alimony Received:** The alimony you receive from your spouse or former spouse is taxable in the year received. Alimony is not subject to withholding tax; therefore, you need to pay or increase your estimated tax to avoid penalty. As an alternative to estimated tax you can increase withholding tax on your wages.
3. **Child Support:** Child support is neither deductible by the paying spouse, nor taxable as income by the receiving spouse.

4. **Spousal IRA:** You cannot deduct contributions to your former spouse's traditional IRA if you get a final decree of divorce or separation maintenance by the end of your tax year. You can deduct contributions you make to your own traditional IRA.
5. **Name Changes:** If you change your name after your divorce, notify the Social Security Administration. File Form SS-5, Application For A Revised Social Security Card. You can get the form on www.SSA.gov or call (800) 772-1213 to order it. The name on your tax return must match the Social Security Administration's records. A name mismatch can cause a problem in processing your tax return and delay your refund. Notify your former spouse of the name change as well.
6. **Special Marketplace Enrollment Period:** If under the divorce decree you lose your health insurance coverage, you are still required to have coverage for every month of the year for yourself and the dependents you claim on your tax return. You may enroll for health coverage through the Health Insurance Marketplace during the Special Enrollment Period.
7. **Changes in Circumstances:** If you purchase health insurance coverage through the Health Insurance Marketplace, you may receive advance payments of premium tax credit. Notify all changes to your Marketplace during the year, including changes such as marital status, name, address, income or family size. Reporting these changes will help ensure you receive the right type and amount of financial assistance.
8. **Shared Policy Allocation:** If you are divorced or legally separated and are enrolled in the same qualified health plan, then you and your former spouse must allocate policy amounts on your separate returns to figure out your proper tax credits and any advanced payments made on your behalf.

As a final note, perhaps one of the most important considerations is how you identify beneficiaries of your insurance and retirement accounts. These accounts are not considered probate assets, meaning they are not controlled by your will. The beneficiaries listed on the policies and retirement beneficiary designation forms will be honored, regardless of what your will or divorce decree says. Therefore, if your former spouse is still listed on your policy or retirement beneficiary designation form, regardless of what your will or divorce decree says, they will receive your assets. This is something we as advisors have seen far too often. It is critical that you contact your insurance carriers and financial companies and make the necessary changes to prevent future payment problems.

Divorce and separation can be extremely troublesome, but the above issues should be addressed in the beginning of the process. If you have further questions contact our office for any assistance. ■

An Inside Look

Firm News

MT&L sponsored a team for the 7th Annual NJCPA Emerging Leaders Kickball Tournament for the fourth year in a row. This charity tournament, held on July 20, benefited The Valerie Fund, which supports comprehensive health care services for children with cancer and blood disorders. In addition to the tournament, the firm assisted the NJCPA in collecting toy donations for Gifts for the Children.

Employee News

Congratulations to **Scott Awerman** on his promotion to Manager.

MT&L is pleased to welcome **Lisa Tattersall** to the firm as a bookkeeper.

MT&L is pleased to welcome **Jason Saks** to the firm as a Staff Accountant. He graduated from Montclair State University with a Bachelor of Science in Business Administration in Accounting. ■

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What You Need to Know Before You Sign Your Next Bank Loan

Debt Service Coverage Ratio: This ratio is a cash flow measure that reflects a borrower's ability to service its debt obligations. This ratio is calculated by dividing net operating income by debt service (principal repayment + interest payments + lease payments). Banks often require a covenant equal to or greater than 1.20x.

Working Capital Ratio: This ratio is the amount of funds invested in a borrower's cash, contracts receivable, and other current assets (collectively total current assets). It is calculated by subtracting current liabilities from current assets.

Debt To Equity Ratio: This ratio determines the extent of non-equity capital used to finance assets and is calculated by dividing total debt by total equity. Lenders will vary on this ratio depending on the business.

In addition to financial ratios as noted above, there could be additional covenants such as a personal guarantee, or a mandatory annual review or audit of your financial statements. Although a personal guarantee will not cost your business anything, the cost of an annual review or audit should be considered when analyzing the total cost of the loan.

An additional consideration is if at any point you fail to meet a covenant, the bank has the legal right to take a number of actions, which will generally be described in the loan agreement. The bank's response usually depends on the severity of the lapse, and may range from any of the following measures:

- A caution letter alerting you to the violation and giving you a short time frame to correct it;
- Enacting default provisions in your agreement that could increase the interest rate your company pays for the remainder of the loan, or imposing a one-time monetary penalty; or
- An acceleration of the maturity of your loan and demanding full payment immediately.

There will always be a time and situation where every business will be forced to consider taking out a loan. However, taking the time to understand and negotiate your loan covenants could save you thousands of dollars and a lot of frustration. If you have any further questions regarding loan covenants or would like assistance evaluating your loan agreement, please feel free to contact your MT&L advisor. ■

"Whether you think you can, or you think you can't – you're right."

-Henry Ford

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Planning for Moving and Job Search Expenses

William Schwarz, CPA, MST

Individual taxpayers seeking new jobs may incur a variety of expenses, including costs directly associated with moving to a new job location or those specifically related to the job search. Many of these expenses are deductible, but the rules are strict, and expenses must be carefully documented and substantiated. You may be able to take advantage of these deductions, if you plan carefully.

Moving expenses associated with a job-related move are deductible as an above-the-line adjustment to income as long as the following conditions are met:

- **Closely Related to the Start of Work Test:** This generally requires that all expenses must be incurred within one year of first reporting to work at a new location. An acceptable exception to this rule exists for taxpayers who can prove that circumstances existed that prevented the move within that time. The IRS gives as an example a family that delayed the move for 18 months to allow a child to complete high school.

- **Time Test:** If the taxpayer is an employee, the taxpayer must work full-time for at least 39 weeks during the first 12 months after arriving in the new general area. Self-employed taxpayers not only must work full-time for at least 39 weeks during the first 12 months, but must also work full-time for a total of at least 78 weeks during the first 24 months after arriving at the new location.

- **Distance Test:** This requirement has two parts: (1) the driving distance from the new home to the new job location is not more than the distance from the former home to the new job location (or moving is a condition of employment; or commuting time costs less in time or money from the new home to the new job); and (2) the new job location is at least 50 miles farther from the former home than the old main job was from the former home. For example, if the former job location was 3 miles from the former home, the new job location must be at least 53 miles from the former home.

What is Deductible?

All moving expenses are not deductible. Eligible expenses include the following:

- The cost of transportation and storage of household goods and personal effects (up to 30 days after the move);
- Travel, including lodging, from the old home to the new home. Travel is limited to one trip per person. However, each member of the household can move separately and at separate times. If the taxpayer drives his or her own vehicle, expenses can be figured using actual out-of-pocket expenses for gas and oil (but not depreciation) or the standard mileage rate for moving (17¢ per mile for 2017), plus parking fees and tolls.
- The cost of moving possessions from another location can qualify (for example, a summer home that is also being sold), but only to the extent of what it would cost to ship from the principal home.
- The cost of moving furniture bought on the way to the new home is not deductible (but the cost of moving furniture purchased and delivered before the movers come is deductible).
- The cost of meals while traveling, temporary living expenses, and house hunting expenses, before and after the move, are not deductible.

Employer reimbursements for qualified moving expenses can be excluded from the employee's taxable income. However, reimbursed expenses that are not otherwise deductible are included in the employee's income.

Job search expenses are deductible as a miscellaneous itemized deduction subject to the 2% adjusted gross income limitation. Expenses incurred looking for a new job in the taxpayer's present occupation are deductible even if the taxpayer does

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Cloud Storage: Reducing Costs and Increasing Security

Enhanced Security. Enhanced security is another positive facet of cloud storage. When you move your data into the cloud, select a reputable data center that provides enterprise level security. This type of security may be cost prohibitive for smaller businesses storing their data locally, but quickly becomes affordable in a cloud environment. In addition, because reputable providers store data in secure redundant locations, backups become a non-issue. Having your data automatically stored in multiple locations minimizes the risk of data loss due to hardware failure, hacks, viruses etc.

Accessibility Anytime, Anywhere. In today's connected world, employees want and need to be able to work from anywhere at any time. In the past, employees required expensive and costly hardware and software to work remotely and it was often problematic. With cloud storage the ability to work whenever and wherever is at your fingertips. Users can now access their files from multiple devices without having to worry about synching files or backing up before leaving the office. In addition should the need to move or even eliminate certain offices arise you can rest assured that your employees can work from anywhere during the transition.

Scalability. One of the best features of cloud storage is that it is easily scalable. Generally speaking, you pay for what you use, when you use it. It's helpful to have the ability to adjust the amount of storage you need without the stress of having to anticipate storage needs for the entire year and risking paying for unused space—or running short. In addition, archived data that you don't need to access frequently can sometimes be moved to a lower tier of service, providing even more savings.

While cloud storage has many advantages, one of the risks may be a lack of privacy. Governments can legally request information stored in the cloud, and it's up to the cloud services provider to deny access. Also, although cloud security is strict and likely stronger than most small businesses can implement, it is not perfect. Cybercriminals can and have accessed online data. When using cloud services it is important to use very strong passwords and change them often, protect all of your local devices with Anti-virus and Spyware software, and be wary of accessing the cloud on public computers or networks. Finally, when choosing a cloud provider it is recommended that you choose a large well-known company with multi-factor authentication and encryption.

Should you have any questions relating to cloud storage please feel free to contact David Kerner. ■

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Planning for Moving and Job Search Expenses

not get a new job, or finds a new job but ultimately does not take it. Typical deductible job search expenses include costs incurred for resume preparation, postage, employment agency fees, transportation, and travel.

Deductions are **not** allowed in the following cases:

- Looking for a job in a new profession;
- If there is a substantial break between the end of the last job and seeking a new job; and
- Looking for a job for the first time.

If you have any questions related to moving or job search expenses, don't hesitate to contact your Meisel, Tuteur & Lewis professional. ■