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

Thoughts from Outside the Box

OUR PERSPECTIVES

2nd Quarter 2014 Volume 13 Issue 2

Dear Clients and Friends,

Summer is finally here! After the winter and spring most of us had, it is a welcome relief. What is also nice to see is the stock market is gaining steam after an unimpressive start to the year. These new highs are met with cautious optimism; in fact, investors have more of their assets parked in virtually non-interest bearing cash than ever before. There is fear, whether justified or not, that a correction is around the corner. Also positive, real estate appears to have rebounded, even in the states that were hardest hit in 2008 and 2009.

So what does this all mean? While I feel hopeful about certain aspects of our economy, I continue to caution clients to remain diligent about planning and saving.

To help, this quarter we provide you with more valuable tax updates as well as tips for making your family business run smoother and an overview of how cloud computing can improve your business operations. I hope you enjoy the articles and as always, please contact us if you have any questions.

Enjoy your summer!

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

Managing the Challenges of a Family Business

Katie Bewalder, CPA, MST

It is estimated that family businesses comprise 80 to 90 percent of businesses in the United States. A family business can be very rewarding and, at times, very challenging. Some of the challenges may include undefined roles and relationships, improper delegation of duties, and family relationships that may lead to bad business decisions. If you are part of a family-run business, this article is for you, providing tips that can help your business succeed.

At the Office You are Co-Workers

Family members know each other like nobody else does, having a deep understanding of each other's personalities and thought processes. While there are many positives to this, there is also one very large negative - you are more likely to lose your composure with a family member than a non-family member. Separating your emotions from the business is not an easy task, which may lead you to say something to a parent or sibling that you would never think of saying to someone else. So, to ensure that your business is successful, it is important to leave your emotions at the door and remember that at the office you are nothing more than co-workers.

Separate Personal and Professional Time

Family businesses are faced with internal conflict that typically arises from the inability to separate business and personal lives. While those in non-family businesses act as a family at home and professionals at work, those in family-run businesses operate on both levels at all times. It is best to keep the two separate. Try to focus on limiting the amount of time you spend talking about business outside of the workplace so that everyone is able to get a break from their respective jobs.

Highlight Each Member's Strengths

Whether or not a family business will succeed or fail is partly dependent on whether clearly defined roles,

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Inside this Issue

Creating Efficiency through Cloud Computing

Sean Higgins

In this day and age it seems like there is a buzz word or acronym for everything. One term that has made its way into everyday language and appears to be here to stay is "the cloud."

Some of you may still have questions about what the cloud is; some may already know but don't yet understand how it can help you grow your business; and others may already be engaged in cloud computing but may not realize how significantly it has impacted you or how many more opportunities might be possible.

The term "cloud computing" refers to moving or extending one's business information technology (IT) system over the internet in order to increase current capabilities, improve efficiency, and upgrade data security. In other words, it is the process of storing and accessing data and programs over the internet rather than from your computer's hard drive. The cloud is made up of many warehouses of servers that take the place of the server room that you may have in your office and allows your programs and data to be accessed from anywhere that an internet connection can be made, which is just about everywhere and from many different types of devices. The cloud is also extremely secure; in fact, it's often more secure than the typical ways information is saved (e.g., to one's hard drive) or shared (e.g., via email) at the office.

With this explanation in mind, let's discuss some ways it can help make your business more efficient. Operating in the cloud can drastically cut down on costly IT upgrades that often occur in 3–5 year cycles. These upgrades can include needing faster computers and new servers with more storage space and capabilities. Also important to consider is the time it takes to map and transfer all of the data from older systems to new ones. A good IT staff is constantly forecasting computing and storage needs at least 5 years in advance. However, when a business grows faster than originally projected, or hires at a faster rate, it can become hard to manage and very costly to purchase new workstations and storage space. These problems are easily eliminated with a transition to the cloud as it is more flexible and easier to expand than the traditional IT setup. The general maintenance is also outsourced to the service provider which allows in-house IT staff to focus on more important business technology issues, such as helping to create stronger business practices and improving the overall IT infrastructure.

Another tangible benefit of transitioning to the cloud is business continuity. For example, severe weather often leaves buildings without power and even inaccessible. Because your data is stored in a secure data warehouse off-site, you and your employees can continue working from anywhere, and often on any device, without interruption.

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Managing the Challenges of a Family Business

responsibilities, and authority have been established. In most companies, it is clear who has the authority to make decisions in various departments and for the entire business. But in a family business the lines can be blurred. A lack of structure can lead to hard feelings and disrupt the company's operations. The best way to avoid complications is to set guidelines for each family member's responsibilities and follow them.

Respect the Generational Divide

While many family members of different generations have great relationships, sometimes the generational gap can create tension. Family members need to accept that some will prefer different methods than others, and while they may see these different methods as being inefficient or wasteful, sometimes the old and new ways of doing things create a balance that clients find appealing.

> *"If you don't like something, change it. If you can't change it, change your attitude."*
>
> \- Maya Angelou

While family businesses have many strengths, such as knowledge that is passed down from generation to generation and the loyalty that comes with family relationships, they are also faced with many unique challenges that are unknown at other companies. Being aware of these challenges is half the battle; addressing them is sure to help your business succeed. ■

IRS Provides Foreign Financial Account Reporting Update

Thomas Colangelo, CPA

The IRS has offered further clarification on its regulatory and enforcement efforts for the disclosure of foreign bank and financial accounts. The "Report of Foreign Bank and Financial Accounts" (FBAR) is required for United States persons who have financial interests in, or signature authority over, financial accounts maintained with financial institutions located outside the United States. The FBAR has to be filed if the aggregate maximum value of the foreign financial accounts exceeds $10,000 at any time during the year. The FBAR is filed separately from tax returns and is not processed by the IRS. Accordingly, the FBAR must be filed by June 30 each year, even if your tax return is on extension.

The new clarification provided by the IRS simplifies some definitions and rules, provides some new rules, and provides examples. The following are among the more significant items contained in the clarification:

The IRS defines 'United States person' as a citizen or resident of the United States, an entity created or organized in the United States, a trust formed under the laws of the United States, or an estate formed under the laws of the United States. The term 'entity' includes, but is not limited to, a corporation, partnership, and limited liability company. It also provides that entities that are U.S. persons and are disregarded for tax purposes may be required to file an FBAR.

When applying the $10,000 rule, the IRS clarifies that if there are multiple accounts below the $10,000 maximum value but in aggregate total in excess of $10,000, then an FBAR is required to be filed.

The IRS also clarifies that records of accounts required to be reported on the FBAR should be kept for five years from the due date of the report. The records should contain the following:

- Name(s) maintained on each account;
- Number or other designation of the account;
- Name and address of the foreign bank or other person with whom the account is maintained;
- Type of account; and
- Maximum value of each account during the reporting period.

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IRS Releases Audit Statistics

William Schwarz, CPA, MST

The Internal Revenue Service has issued its annual data book, which provides statistical data on its fiscal year 2013 activities. The figures contained in the report relate to returns filed in calendar year 2012 and audited in fiscal year 2013. Here are a few of the key statistics:

- Approximately 1.0% of all individual income tax returns were audited.
- 24.5% of the individual audits were conducted by revenue agents compared to 24.3% for the previous year. The rest were correspondence audits.
- 3% of individuals with a business showing gross receipts of $100,000 to $200,000 were audited, down from 3.6% in the previous year.
- For individuals with a business showing more than $200,000 in gross receipts, 2.7% were audited, down from 3.4% in fiscal year 2012.
- 10.8% of returns showing total positive income of $1 million or more were audited, down from 12.1% the prior year.
- 0.77% of individuals with Adjusted Gross Income (AGI) between $100,000 and $200,000 were audited (down from .85%); 2.06% for those with AGI of $200,000 to $500,000 (up from 1.96%); 3.79% for those with AGI of $500,000 to $1,000,000 (up from 3.57%); and 9.02% for those with AGI of $1 million to $5 million (up from 8.90% in the prior year).
- For corporations with total assets of $250,000 to $1 million, 1.3% were audited; 1.4% for assets from $1 to $5 million; and 2.0% for $5 to $10 million. For fiscal year 2012, the respective rates were, 1.7%, 2.1%, and 2.6%.
- 0.4% of Partnership and S Corporation returns were audited, down from 0.5% in the prior year.

You can view the complete data book at:
http://www.irs.gov/pub/irs-soi/13databk.pdf ■

An Inside Look

Employee News

Congratulations to **Scott Awerman** on obtaining his CPA license.

Curtis Gambin participated in the HealthTrek Bike/Walk event, sponsored by Enright Melanoma Foundation and achieved Individual Leader status for his fundraising efforts.

On June 8, **Jill Kolk** participated in the American Cancer Society George Washington Bridge Challenge (10k run) to raise funds for cancer research and awareness.

Firm News

MT&L sponsored the Summit Medical Group Foundation (SMGF) "Shaping the Future of Medicine: Then & Now" Gala on May 30th at the Hilton Short Hills. This gala launches the creation of the SMGF and supports its mission to enrich the lives of its community members through health promotion, medical research and medical education. ■

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Creating Efficiency through Cloud Computing

Having the ability to work in the cloud can also drastically improve one's work/life balance. By allowing employees the freedom to work remotely and on schedules that best suit them, companies improve employee morale. Most can agree that having happy employees contributes to increases in efficiency and quality of work. Let me be clear that I am not abdicating for employers to shut down their offices and allow everyone to work from home; however, the ability to do so is an added perk that may increase the likelihood of hiring and retaining good talent.

The ability to serve clients in a timely, efficient, and productive manner is more important than it has ever been and is sometimes the only differentiator. The cloud is a valuable tool in reaching this goal. ■

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IRS Provides Foreign Financial Account Reporting Update

Retaining a copy of the filed FBAR can help to satisfy the recordkeeping requirements.

If a filer does not have all the available information to file the return by the June 30 filing due date, the IRS provides that the filer should file as complete a return as possible by June 30 and amend the report when additional or new information becomes available.

Should you have any questions about FBAR and how it affects you, do not hesitate to contact your Meisel, Tuteur & Lewis advisor. ■

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Thoughts from Outside the Box
OUR PERSPECTIVES

Recent Developments that May Affect Your Tax Situation

William Schwarz, CPA, MST

The following is a summary of the most important tax developments that have occurred in the past three months that may affect you, your family, your investments, and your livelihood.

IRA rollovers to be limited: The law limits the number of IRA rollovers that can be made in any 1-year period to one. Up until recently, there was a discrepancy between the IRS and the Tax Court. The Tax Court held that the limit applies not to each separate IRA, but to all of the IRAs one owns. The IRS, however, stated the limit applies to each IRA. Thus, an individual with three IRAs could make three rollovers in a 1-year period under the IRS guidance but only one under the Tax Court decision. After considering the matter, the IRS announced that it will adopt the more restrictive view of the Tax Court. However, the new rule won't apply to any rollover that involves a distribution occurring before 2015. The IRS emphasized that an IRA owner will continue to be able to transfer funds from one IRA trustee directly to another as frequently as desired. Such transfers are not rollovers and thus are not subject to the limit.

Popular expired tax breaks may be revived: A number of popular tax breaks expired at the end of 2013. For individuals, these expired items include, among others, the deduction for state and local sales taxes, the deduction for qualified tuition and related expenses, tax-free distributions from IRAs for charitable purposes, the deduction for mortgage insurance premiums, the exclusion for discharged principal residence debt, and the provision allowing a higher exclusion for employer-provided transit benefits. Work has begun in Congress to revive these provisions and extend them through 2015. Some key business breaks might also be brought back, including the research credit, higher expensing, bonus depreciation, employer wage credit for activated military reservists, work opportunity tax credit, and 15-year straight line cost recovery for qualified leasehold, restaurant, and retail improvements, among other items.

Severance payments are subject to social security taxes: In a unanimous decision, the Supreme Court, reversing the Sixth Circuit Court of Appeals, held that severance payments made to involuntarily employees that weren't tied to the receipt of State unemployment insurance are subject to tax under the Federal Insurance Contributions Act (social security taxes). The Court concluded the severance payments fell within the law's broad definition of "wages" for social security tax purposes.

Luxury auto depreciation limits for 2014: Under special "luxury automobile" rules, a taxpayer's available depreciation deduction for business autos, light trucks, and minivans is subject to additional limits, which operate to extend depreciation beyond its regular period. The IRS has released the inflation-adjusted depreciation limits for business autos, light trucks, and vans (including minivans) placed in service in 2014. The depreciation deduction limits for 2014 are the same as in 2013 for a passenger auto, while the limits are $100 higher for a light truck or van for the first three years and the same for years after the third year. The first-year depreciation limit is $3,160 for autos and $3,460 for light trucks or vans first placed in service in 2014. The bonus depreciation rules for additional first-year depreciation for autos, light trucks, and vans, under which the regular first-year dollar limit for eligible vehicles was increased by $8,000, only applied to vehicles placed in service before January 1, 2014. There is a chance that Congress may retroactively revive bonus depreciation to the beginning of 2014 and extend it through 2015.

Maximum auto/truck values for cents-per-mile valuation:

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Recent Developments that May Affect Your Tax Situation

The IRS has released the 2014 maximum fair market values for employer-provided autos, trucks, and vans, the personal use of which can be valued for fringe benefit purposes at the mileage allowance rate. An employer must treat an employee's personal use of an employer-provided auto as fringe benefit income and value it using one of several methods. One of the permitted methods allows an employer to value personal use at the mileage allowance rate (56¢ per mile for 2014). However, this method may be used only if the auto's fair market value does not exceed $12,800, as adjusted for inflation. The inflation-adjusted figures for vehicles first made available to employees for personal use in 2014 are $16,000 for autos (same as for 2013) and $17,300 for trucks and vans (up from $17,000 for 2013).

Proposed regulations on the individual mandate: The IRS has issued proposed regulations on the individual mandate to carry health insurance. The regulations include additions to the list of government-provided health plans that don't provide minimum essential coverage and a liberalization of the hardship exemption rules under which an individual who fails to carry coverage can escape the penalty.

Guidance on the employer mandate to provide health insurance: The IRS has issued final regulations and guidance in the form of frequently asked questions (FAQs) on the health care law's so-called employer mandate imposed on large employers, defined as one employing at least 50 full-time employees on business days during the preceding calendar year. The mandate was supposed to begin in 2014 but has been delayed until 2015. The FAQs cover a variety of topics, including how to determine whether an employer is subject to the mandate, how to properly identify full-time employees, and how to calculate the shared responsibility payment.

Small estates get more time to transfer unused exclusion to surviving spouse: The estate of a decedent who is survived by a spouse may make a portability election. It allows the surviving spouse to apply the decedent's unused exclusion amount to the surviving spouse's own transfers during life and at death. The amount received by the surviving spouse is called the deceased spousal unused exclusion, or DSUE, amount. In general, the election must be made within nine months of the decedent's death on the estate tax return, even if the estate is below the exclusion amount and would not normally require a return. Because many estates below the threshold did not file, the IRS provided a simplified method to obtain an extension of time to elect portability. This method only applies to estates of decedents who died after December 31, 2010 and on or before December 31, 2013. The decedent must have been a U.S. citizen or resident on the date of death. In addition, an estate tax return must not have been required because the size of the estate was below the filing threshold. If these and other requirements are met, the IRS will grant an automatic extension to make the election on an estate tax return filed on or before December 31, 2014. Taxpayers failing to qualify for this relief may request an extension of time to make the election by requesting a letter ruling.

New IRS guidance on virtual currency: The IRS has provided guidance in the form of FAQs on the tax treatment of virtual currency, such as Bitcoin. This guidance treats virtual currency as property for U.S. federal tax purposes. Thus, the general tax principles that apply to property transactions apply to transactions using virtual currency.

Acceptance of New Jersey sales and use tax exemption certificates: Effective March 17, 2014, the New Jersey Division of Taxation has amended the N.J. Admin. Code to be in conformity with the current provisions of the Streamlined Sales and Use Tax Agreement (SSUTA). The amendments harmonize the rules that deal with the acceptance of exemption certificates with the SSUTA. Specifically, the amendments delete the words "in good faith" that follow the word "accepts." This means that, effective October 1, 2005, "good faith" no longer applies at the point of purchase. Rather, there is only a requirement for a completed exemption certificate to be obtained by the seller within 90 days of the sale. Good faith is now only a factor during an audit situation when the seller has 120 days after the Division's request for substantiation to produce an exemption certificate after the auditor's request for such a certificate.

As always, please contact your advisor to discuss what steps you should implement to take advantage of the favorable developments and minimize the impact of others. ■