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Certified Public Accountants
Management Consultants

Thoughts from Outside the Box

OUR PERSPECTIVES

4th Quarter 2016

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Dear Clients and Friends,

It's finally over. This presidential election was perhaps the most dramatic and shocking in history. Donald Trump's surprise victory sent the market into a frenzy, recovering as quickly as it dropped. Trump has not been shy about his views on our tax system. It needs reform. So what does Trump's presidency mean for tax reform? How will having Trump in the Oval Office help—or hurt —us financially?

Nobody knows for sure how Trump's tax plan will ultimately be presented, and after all, the House and Senate will play a key role in the final outcome as well.

But here are a few areas that we will be watching in the coming year: estate tax repeal is likely; how foreign profits of US multinational companies are handled; whether pass-through businesses will receive a tax break; how proposed tax breaks will impact federal revenues (potentially adding to the federal debt); and possible corporate and individual tax reductions.

We will keep you apprised of changes in the law throughout the year, both through this newsletter as well as our email alerts. Should you have any questions, never hesitate to give us a call.

On a personal note, I want to wish you and your families a very happy holiday season and all the best for a healthy and prosperous new year.

Very truly yours,

Michael S. Lewis, CPA
Managing Partner

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The New Overtime Rule is Going into Effect. Are you Ready?

Anthony Pentz, CPA, MST

About this time last year, we published an article about the proposed new overtime rules and how they might impact your business. The Department of Labor (DOL) has now released the highly anticipated final overtime rules, which was originally scheduled to become effective on December 1, 2016. In a nutshell, the rule will expand overtime pay eligibility to approximately 4.2 million salaried workers across the country, guaranteeing them compensation equal to time-and-a-half for time worked beyond the standard 40-hour work week.

That said, on September 20, 2016 numerous business groups and 21 states filed lawsuits challenging the DOL's overtime rule revisions. On November 22, a federal judge in Texas upheld their motion for a nationwide injunction, effectively blocking the DOL's ruling, pending resolution of a consolidated legal challenge.

While it is true that the revised regulation may—or may not—look different than the one recently released, we encourage you to become familiar with this ruling and prepare to uphold it in the near future.

Here's what you need to know

- The final rule has nearly doubled the salary threshold for overtime eligibility, from $455/week to $913/week. That means employees who earn less than $47,476 per year will become eligible for overtime. This threshold will automatically update every three years and is anticipated to be more than $51,000 by 2020.
- Some highly compensated employees will also get an increase, with their overtime threshold increasing from $100,000 to $134,000.
- Certain businesses with revenue less than $500,000 annually are exempt from the new rules.

A word of caution

In many businesses, it is not uncommon for employees to respond to emails at night or over the weekend, or to work

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Inside this Issue

How Managing Cash Flow Can Impact Your Success

Daniel Grant, CPA

Most of us believe the key to a successful business is ensuring all of our customers are satisfied with their purchases and the service they receive. Although keeping customers satisfied is extremely important, some business experts believe maintaining a healthy cash flow is more important. Their reasoning is that if you don't have adequate cash flow to maintain your operations and pay your team, you will lose the opportunity to satisfy your customers going forward.

In order to determine whether your business has a healthy cash flow, you must first understand what components make up your cash flow. Simply defined, cash flow is the movement of money in and out of your business. These movements are called inflows and outflows. Inflows primarily consist of cash sales, collection of receivables, borrowed funds, cash derived from the sale of assets, and investment income from interest. Examples of outflows include paying employee wages, purchasing inventory or raw materials, purchasing fixed assets, operating costs, paying back loans, and paying taxes. Once you have identified and understand the cash inflows and outflows of your business, we recommend preparing a cash flow statement on either a monthly or quarterly basis. This will provide the information you need to make the best decisions for your business.

A thorough analysis of your cash flow statement helps you identify problem areas that can lead to cash flow gaps in your business. By addressing and closing these gaps, you will be able to protect your reputation as a reputable company to do business with and position it for long-term success.

Some of the key factors to consider during your analysis include the following:

- **Accounts Receivable.** Accounts receivable balances represent sales in which customers have promised to pay at a later date. Depending on the amount of time a customer takes to pay for their purchases, this timing could negatively affect your cash flow. Being proactive by sending invoices once work is completed or products are delivered is just one of the many ways to speed up your cash collections. Another way to expedite the process is by emailing invoices instead of mailing them.
- **Credit Terms and Policy.** When establishing a credit policy and terms, it is important not to be too strict or too generous. Establishing credit terms provides your customers time limits for repayment, which will hopefully get customers to pay their bills more timely. In addition, implementing a credit policy will provide you with a blueprint to use when deciding to extend credit to certain customers. Having a fair credit policy will provide your customers with some flexibility, while ultimately providing your company with a healthy cash flow.
- **Inventory.** Properly managing inventory levels can have a positive or negative affect on your cash flow. For example, purchasing an excessive amount of inventory can result in cash being tied up in inventory, when it could have been used for other cash outflows. Your goal should be to keep your inventory levels as low as possible, without compromising your day-to-day operations.

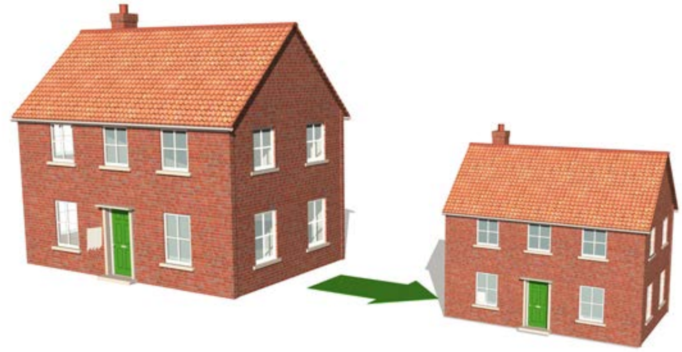
- **Accounts Payable.** Accounts payable are amounts you owe your vendors in the near future. At times, vendors may provide worthwhile incentives for you to pay early, which may be beneficial to take advantage of. However, if there is no incentive for paying a bill early, then it should be paid as close to the due date as possible. Therefore, examining your payables schedule can also help optimize your cash flow.

It is important to keep in mind that everyone's business model is different. With that being said, cash flow gaps might be created intentionally to take advantage of significant trade discounts, or other times they could be unavoidable due to seasonal fluctuations. What is crucial is that you continually monitor and manage your cash flow. This will provide your business the vitality that it needs to grow and succeed. Always remember, the first signs of financial woe will appear in your cash flow statement. Recognizing problems early will allow you to plan a strategy to address them. If you need help preparing and understanding the components of your cash flow statement do not hesitate to contact your MT&L advisor. ■

> *"It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change."*
>
> \- Charles Darwin

Downsizing Your Home–When Is It Time?

Andrew R. Fink, CPA, MST



"When should I consider downsizing my home?" This is a question that both older and aging families eventually ask themselves. It encompasses emotional, physical, financial, and tax considerations. Let's review the universal issues.

Emotional Reasons

It starts with family and memories. This is where the family was raised. Most family events happened here. Often, after the children have left, many empty nesters want to remain and retain these memories. While there are other factors, what is mostly cited is the belief that staying in the bigger house makes it more comfortable for family members to visit.

Physical Reasons

As we age, our health can make it difficult to navigate stairs and move around the house, not to mention the need to maintain and clean a large house. These physical challenges support a decision to downsize to a smaller, more manageable condominium or age-appropriate residence. On the other hand, there are ways to make modifications that would make remaining in one's home a viable option. Possible improvements include things such as chair lifts on stairs, ramps for wheelchairs, safety bars for stairs and bathrooms, or the relocation of a bedroom to the main floor. It is possible that modifying a home one has been in for decades could be less expensive than moving into a new location.

Financial Implications

This encompasses several different issues. As a general rule, your home should not be treated as an investment, but as a living expense. Staying in a larger home likely comes with higher real estate taxes, utility costs, and maintenance needs.

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The New Overtime Rule is Going into Effect. Are you Ready?

extra hours to complete a project. Now, however, these actions may legally entitle them to overtime pay, something most small businesses are not prepared for financially and likely have no way to properly track. In addition, there is the danger of employees underreporting hours to avoid looking inefficient if they have been told not to incur overtime. The concern here is that a worker could file a claim later.

Small business owners should be aware that there are stiff penalties for non-compliance. If you don't pay proper overtime wages, you can be liable for substantial penalties plus interest for up to three years in most states and six years in New York State.

In response to the new overtime rule, employers have a few options:

Option 1: Pay previously exempt salaried workers time-and-a-half for overtime work. This is good news for workers as this is the intent of the new rule and would eliminate sweatshops and pay workers a "fair wage for a hard day's work." For employers, this represents an increase in payroll expenses.

Option 2: Raise workers' salaries above the new threshold. This action would give employees a small raise, but make them ineligible for overtime. This is likely a better deal for the company than the employee, as it controls payroll costs and doesn't limit a workers' ability to work more than 40 hours/week.

Option 3: Change worker status. Another strategy is turning salaried workers into hourly workers without reducing their take-home pay. For example, if someone works 50 hours/week, you would calculate their hourly rate for 40 hours and then account for having to pay them time-and-a-half for the additional 10 hours/week. The downside to this scenario is that the worker's salary could go down if they don't work the anticipated overtime (and if they work more, businesses pay more). Also, employees are likely to feel demoted in this scenario, which could cause a negative culture shift.

Option 4: Limit workers' hours to 40 hours/week. This option could play out in many ways. For some, it could result in a better work/life balance, giving them more free time. It might also create new job opportunities as employers add shifts or part-time positions to ensure the same amount of work gets done. However, if limiting a worker's hours translates to splitting shifts and the employer converts their staff from full-time to part-time (with no benefits required), then no real benefit to the worker is derived.

It should be noted that employers may use nondiscretionary bonuses and incentive payments (including commissions) to satisfy up to 10% of the new salary threshold, provided these payments are made on a quarterly or more frequent basis. However, if an employee does not earn enough in nondiscretionary bonuses or incentive payments in a given quarter to retain their exempt status, the employee must be paid overtime for all hours worked over 40 hours in a workweek during the quarter.

As you can see, this could become a complicated issue. We will keep you updated on this matter as changes occur. In the meantime, if you wish to discuss how you can prepare for the ruling, should it ultimately become effective, don't hesitate to reach out to your MT&L advisor or payroll representative. ■

An Inside Look

Employee News

Congratulations to **Alexandra Laschuk** and Philip Castiglia on their marriage. They were married on September 17th.

MT&L is excited to welcome two new professionals to our team: **Carolynn Gottschalk, CPA** and **James Mileto**.

Congratulations to **Tammy Gardenier**, whose team – Team Deet Deet - raised $1,750 for the Making Strides Against Breast Cancer walk on October 16th in Point Pleasant Beach.

Congratulations to **David Kerner** and Sammie's Team for raising more than $3,000 for the Friendship Circle Walk on October 30th. The Friendship Circle promotes a greater awareness and understanding of the unique needs and gifts of individuals with special needs. ■

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Downsizing Your Home– When Is It Time?

Selling this home has a potential large capital gain, but closing costs should be considered as they can represent a large expense. Furthermore, while moving to a new location, such as a downsized condominium, effectively reduces many of the above expenses, it does add other costs, such as condominium or maintenance fees, which can be substantial. In addition, you are likely to incur moving costs and possibly storage fees if you choose to store furniture and other household items that won't fit in your downsized space.

Tax Issues

A couple who purchased a home in the 1970's for $100,000 and is selling that home today for $750,000 now has a gain of $650,000. Under current Federal and many state tax laws, they can exclude $500,000 of gains (if filing as married or filing jointly), or $250,000 for an individual. The difference ($150,000 in this example) is taxed at a capital gain rate of 15% or 20%, based on their ordinary income in the tax year they sell the home. This should be considered, as the tax may negate the money saved by downsizing during their lifetime.

On the other hand is the estate planning benefit. In this alternative, the home can be passed on to a beneficiary from the estate. The beneficiary would then receive a stepped-up basis for the estate value of the home. Therefore, based on the sale date, there might be no gain and no tax on the sale.

Deciding when and if you should downsize is not always a simple decision. With so many things to consider, and more and more options available to aging individuals, we encourage you to speak with family members, medical advisors, your financial advisor and your accountant before making a final decision. ■

TOY DRIVE 2016

to benefit Goryeb Children's Hospital

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Drop off items at:
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Roseland, NJ 07068

Donations accepted until December 9th!

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Roseland, NJ 07068-1086

Phone: 973-228-4600
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Meisel, Tuteur & Lewis, P.C.
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Tax Update

William Schwarz, CPA, MST

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

- **New self-certification procedure for those who miss the 60-day rollover deadline:** The IRS has provided a new self-certification procedure designed to help recipients of retirement plan distributions who, due to one or more specified reasons, inadvertently miss the 60-day time limit for properly rolling these amounts into another IRA (or other eligible retirement plan). The new self-certification procedure allows these taxpayers to claim eligibility for a waiver of the 60-day rollover requirement that can be relied upon by a plan administrator or IRA trustee in accepting and reporting receipt of the rollover contribution. The new procedure permits individuals to get rollover relief without having to follow a cumbersome private letter ruling request procedure.
- **IRS agrees that residence interest limits are applied separately for unmarried co-owners:** The IRS has announced its acquiescence to a decision of the Court of Appeals for the Ninth Circuit that the limitations on deductions for qualified residence interest ($1 million of acquisition debt and $100,000 of home equity debt) are applied on a per-individual basis, and not a per-residence basis. Thus, the IRS now agrees that unmarried co-owners are collectively limited to a deduction for interest paid on a maximum of $2.2 million, rather than $1.1 million, of acquisition and home equity debt.
- **Streamlined Processing of Installment Agreements:** The IRS has updated and expanded its webpage on streamlined processing of installment agreements under a test program that will last until September 30, 2017. Under the test program, the qualification criteria have been relaxed for some taxpayers who owe more than $25,000 but not more than $50,000 in tax, penalties, and interest. In addition, streamlined processing criteria also will apply, for the first time, to taxpayers whose unpaid balance is more than $50,000 but less than $100,000.
- **New Accelerated W-2 and 1099-Misc Filing Deadline:** In a news release, the IRS has reminded employers and small businesses about the new filing deadline for Forms W-2 and 1099-Misc. As a result of The Protecting Americans from Tax Hikes Act (PATH), Forms W-2 and 1099-Misc filed in 2017 must be filed on or before January 31 of the year following the calendar year to which such returns relate. Before the PATH Act change, the Forms had to be filed by the last day of February (March 31 for electronically filed forms). These returns are no longer eligible for the extended filing date for electronically filed returns.
- **Beware of Fake IRS Tax Bill Notices:** The IRS and its Security Summit partners are warning taxpayers of fake tax bills related to the Affordable Care Act. The IRS has received numerous reports of scammers sending a fraudulent version of a notice labeled CP2000 for tax year 2015. The scam may arrive by e-mail or by regular mail and has the following signs of being a fake:
  - The CP2000 notices appear to be issued from an Austin, Texas address;
  - The letter says the issue is related to the Affordable Care Act and requests information regarding 2014 coverage;
  - The payment voucher lists the letter number as 105C;
  - Requests checks be made out to I.R.S. and sent to the "Austin Processing Center" at a post office box.

  We strongly recommend that all taxpayers review all tax correspondence received from any taxing authority with their tax professional before making any payment.

- **New Jersey Estate Tax:** The New Jersey Division of Taxation has issued a notice regarding the changes made to the estate tax law in conjunction with the highly publicized bill increasing New Jersey's gas tax. The New Jersey Estate Tax exemption will increase from $675,000 to $2 million for the estates of residents decedents dying on

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Tax Update

or after January 1, 2017, but before January 1, 2018. For residents dying on or after January 1, 2018, no New Jersey Estate Tax will be imposed on the transfers of resident estates. In addition to the Estate Tax, New Jersey imposes an Inheritance Tax on the estates of certain resident and nonresident decedents. The new law made no changes to the New Jersey Inheritance Tax. In the upcoming weeks, the Inheritance and Estate Tax Branch will provide guidance regarding the filing of the New Jersey Estate Tax return and the issuance of waivers for the estate of a decedent dying on or after January 1, 2017, but before January 1, 2018. ■

Deductibility of Interest Paid

Scott Awerman, CPA

As you probably know, there are a number of itemized deductions reflected on Schedule A of your Form 1040 that may benefit you. Although sometimes limited, many of these are straightforward: charitable contributions, state and property taxes, and medical expenses are tax-saving deductions. The deductibility of interest paid, however, is often times a topic of inquiry amongst clients. With another filing season quickly approaching, we thought it might be helpful to provide an explanation of the different types of interest and their possible impacts on individual tax returns.

The most common question we're asked in terms of interest deductibility is regarding interest paid on credit card debt. Don't jump to max-out your cards too quickly—interest borne by credit cards and personal loans is generally not deductible. Interest from mortgages, home equity lines, and investment debt, however, may save you a bit of tax.

With rates so low, you've probably borrowed money to buy, build, improve, or refinance your home. Some or all of the interest you pay each year on these loans is deductible, reducing your taxable income and saving you money come time of filing.

Regarding mortgage interest, you are permitted to deduct the interest on two homes. If you have three homes with mortgage debt, you can deduct the interest on the two properties with the highest interest payments during the year, maximizing your benefit. Home equity debt is also deductible, but only for balances up to $100,000 ($50,000 for married couples filing separately). The limitation on mortgage debt is also an important consideration: the deduction on home acquisition debt is limited to $1,000,000 of debt ($500,000 for married couples filing separately). Combine this limitation with that of your equity line, and the aggregate indebtedness limit is effectively $1.1 million, again halved for married filing separately.

For those of you familiar with Alternative Minimum Tax (AMT), you'll remember that there are sometimes mortgage interest considerations when calculating your AMT. No two taxpayers' returns are the same and our office would be happy to walk you through your AMT calculation, inclusive of possible mortgage interest adjustments.

Money borrowed to make investments is sometimes deductible, as well. Your margin account at a brokerage house will charge interest which can sometimes be deducted. Borrowing money to purchase property that will produce taxable investment income (interest, dividends and royalties) or that you hope will appreciate in value to sell for a gain often times generates deductible interest. Your deduction is again limited, as expected, up to the taxable investment income you report. For example, if you report $10,000 of taxable investment income, you can only deduct the same amount of investment interest, even if the interest incurred was $20,000.

The deductibility of interest is yet another piece in the complicated puzzle that is the tax code. Your tax advisors at Meisel, Tuteur & Lewis are here to answer any questions you may have. ■