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

Thoughts from Outside the Box
OUR PERSPECTIVES

2nd Quarter 2016

Volume 15 Issue 2

Dear Clients and Friends,

Every time I sit down to write this column I am amazed that another three months has passed. Tax season has come and gone and I am happy that summer is around the corner.

That being said, because of our client mix, we maintain a steady stream of special projects and recurring work throughout the year that we will now turn our attention to. We also feel honored that many of our new client relationships have come to us through client referrals, which we view as the highest compliment. And to provide uninterrupted support to all of our clients, we continue to add team members at every level. The young professionals on our team impress me every day with their knowledge and commitment.

I hope each of you takes time to enjoy the warm weather, refining your golf swing, sunbathing at the beach or enjoying a family vacation. Of course, the world doesn't put itself on hold so that we can enjoy ourselves. Activities such as business and tax planning must continue throughout the year.

We will continue to track all pending regulations should they impact you, and will communicate with you directly whenever we feel there is something you may need to act on. Of course, don't hesitate to call on us if you have any questions; we are always available. Enjoy the summer!

Very truly yours,

Michael S. Lewis, CPA
Managing Partner

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Renting a Car? Here's What You Need to Know.

Stephen Andolena, CPA

Most of us have a favorite credit card we use when we travel. Some offer points, others offer cash back. But what about insurance coverage? When renting an automobile, you are typically offered supplemental insurance by the rental car company. In addition, the credit card you are using may offer coverage. Deciding whether it's worth purchasing insurance from the rental car company can be difficult if you don't understand what your credit card network offers.

To help clear up some of the confusion, CardHub completed a study in 2015 detailing the major credit card networks' rental car insurance policies and their limitations. This included Visa, Discover, MasterCard and American Express. It is important to note that CardHub's report was compiled based on the networks' policies in general; coverage details of specific cards may vary.

There are some basics you should know before renting a car, regardless of which credit cards are in your wallet. First, all four major credit card networks require that any supplemental insurance or collision damage waivers offered by the rental company are declined. Second, you must charge the entire rental purchase to the card in order for the benefits to apply. Finally, it's worth noting that MasterCard is the only network that does not provide at least some form of coverage on all of its cards.

There are also restrictions to be aware of related to the type of automobile you rent. Although American Express's premium coverage does apply to more expensive cars, be aware that antique, exotic, and luxury cars are generally not

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Inside this Issue

Milestone Birthdays for Smart Financial Planning

Katie Bewalder, CPA, MST

When you hear the phrase "milestone birthday," what do you think of? Typically we consider a milestone birthday to be one that marks a significant event, such as turning 21 (when we can legally drink), or turning 50 (when we become eligible for AARP). The amazing thing about birthdays is how they cause many people to reflect on their lives and how it is progressing, which can be a good thing as it may lead to planning and intentional change.

There are also financial milestone birthdays that are not so obvious to many of us. Knowing when these milestone birthdays fall, and planning accordingly, can make a significant difference in the financial decision-making process. Since many rules and regulations regarding various financial issues are determined by age, below is a list of the birthdays you should pay attention to.

Age 18 – HIPAA Authorization Needed

When a child turns 18, they are considered a legal adult. Many parents have been shocked to learn that their child's doctor is no longer allowed to disclose private medical information about the child, even to their parents. When your child turns 18, you should encourage them to sign a HIPAA Authorization form so their doctors can disclose medical information to you. One copy should be kept on file with their medical providers and another in a safe location accessible to the parent in case of an emergency. It's also a good idea to have them complete a medical power of attorney, giving an individual of their choosing the ability to make medical decisions for them should they become incapacitated.

Age 21 – Credit Card Eligibility

At the age of 21, anyone can obtain a credit card on their own. Under the age of 21, they must either have a co-signer over the age of 21 or the ability to prove they are capable of repaying debt themselves. Many young people get themselves into trouble with credit card debt, having never had financial freedom to spend before. It is important to educate your children about responsible credit card use before they turn 21. Don't forget to explain the importance of making timely payments, how interest works, and the benefits of paying the entire balance due each month.

Age 26 – Health Insurance Coverage for Dependents Ends

Under the Affordable Care Act, your child can remain a dependent for health insurance purposes until the age of 26. If your child is turning 26 this year and is on your health insurance plan, check with your employer to see the exact date that your child's benefits will terminate. Then help your child review their options for continued health insurance coverage.

Age 50 – IRA Catch-Up Contributions & Long-Term Care Considerations

Beginning at age 50, you may be able to increase contributions to your IRA using "catch-up" contributions, depending on your plan rules. For Traditional IRAs and Roth IRAs, you can set aside $1,000 on top of the $5,500 allowed for taxpayers under age 50. If you have a 401(k), 403(b), 457(b) or Roth 401(k), you can save an additional $6,000, in addition to the $18,000 standard allowance. Now is also the time to consider long-term care insurance. It may be hard to seriously consider your need for nursing home care, but the cost of long-term care is high and rising fast. If you can afford to put it in place now, your rates will be better and you'll have peace of mind should you need that level of care sooner than you expect.

Age 59 ½ – Penalty-Free Distributions

At the age of 59 ½ you will no longer be subject to a 10% penalty for taking a distribution from your IRA or qualified retirement plan account. The penalty-free distribution also applies to Roth

IRAs if you opened the account at least 5 years ago. However, the amount of the distribution will be included in your taxable income and subject to tax, therefore it is best to delay distributions and defer taxes on the growth as long as possible. If you are considering taking a distribution, talk to your MT&L adviser or a tax professional to see if it makes sense.

Age 62 – Social Security Benefits

At the age of 62 you may begin collecting social security retirement benefits, or you can elect to wait until your full retirement age (currently 66 or 67 depending on your birth year). It's important to note that if you begin receiving your benefits before full retirement age, the amount you receive each month may be reduced by as much as 30%. Talk with your financial advisor to determine what's right for you.

Age 65 – Medicare Eligibility

Typically, you are not eligible for Medicare until you reach the age of 65, even if you have already elected to receive social security benefits. Individuals with certain conditions and disabilities may be able to enroll at a younger age. Here's how enrollment works: (a) If you are already receiving social security benefits, you will be enrolled automatically at the age of 65; (b) If you have decided to wait for social security benefits and do not have health coverage through a group plan, you can enroll during the enrollment period which begins three months before your 65th birthday and continues for seven months; and (c) If you do not enroll within 3 months after your 65th birthday, your Medicare premium costs could be higher (so don't delay).

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Are You Prepared to Implement the New Lease Accounting Standard?

Daniel M. Grant, CPA

On February 25, 2016, the Financial Accounting Standards Board (FASB) finally issued an updated lease accounting standard, which has been long awaited since the original exposure draft on the topic was released in August 2010. The new standard is expected to provide readers of financial statements with a clearer picture of an entity's lease obligation, but a change of this nature will require significant work and planning. Not only will you be faced with new accounting and disclosure requirements, but also new considerations when making business decisions related to leasing transactions overall.

Understanding the basic premise of the new lease guidance is essential to properly establishing an implementation plan. Accounting for leases has always been a complex area, however the new standard will lead to substantial changes in presentation as lessees will begin to recognize the assets and liabilities for operating leases on the balance sheet. The impact on the income statement is not expected to be as significant, but depending on lease agreements, the impact to the balance sheet could be substantial. For lessors, their accounting model remains relatively unchanged from what it is today, with certain changes needed to conform with the revenue recognition guidance offered under ASC Topic 606 - Revenue From Contracts With Customers. There is one exception to the balance sheet recognition guidance, which are for those leases with terms of one year or less. FASB's standard will take effect for public business entities in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years; for all other entities, it will take effect in fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption will be permitted by FASB.

In order to establish a successful implementation plan, the following items should be considered.

Determine how the new standards will impact your business. Start assessing existing leases, the ways leases are used, and their significance to operations as part of your business model. By doing this, you will be able to identify the potential impact of the new accounting rules on future strategic plans and lease versus buy decisions.

Take an inventory of all your leases. Update your inventory of lease agreements and review them for specific provisions that will be affected by new lease accounting requirements, including variable rents, service components, renewal and purchase options, residual guarantees, and future rent increases. Identify leases that will still be in effect in the earliest year presented in comparative financial statements during the implementation year.

Consider how changes will impact your balance sheet. Consider any potential impact of changes to the balance sheet for loan covenants and compensation arrangements. You will also need to evaluate any state and local tax implications as a result of the change in U.S. GAAP.

Understand and calculate your lease's interest rate. As the lessee, you need to determine your incremental borrowing rate. This will be used when the lessor's implicit rate in the lease is unknown. FASB permits entities that are not public business entities to elect an accounting policy to use the risk-free rate, which is simpler, but will likely result in recording a larger asset and liability because of a lower discount rate.

Make a credible allocation. When allocating the contract consideration to the lease and non-lease components, you'll need to use observable stand-alone prices when available. As a result, you will need to request additional pricing information for goods or services provided as part of any lease. At times, this information may not be available. In these instances, an estimate should be used; however estimates must be reasonable, consistent, documented, and auditable.

Educate all owners and other financial statement readers. As your implementation date approaches, it will also be important that the readers of financial statements are aware of the impact of the new leasing standard and are educated on the change to eliminate any confusion down the line.

The key to any implementation plan is to start planning early and to evaluate how the new lease accounting standards will affect your business model. By doing so, you will be able to make an informed decision about how your entity should approach the transition. If you have any further questions regarding the new lease standard or if you would like further assistance in evaluating and establishing an implementation plan, please feel free to contact your MT&L advisor. ■

We are what we repeatedly do. Excellence then, is not an act, but a habit. - Aristotle

An Inside Look

Employee News

Congratulations to **Alexandra Laschuk** on earning her Certified Public Accountant accreditation.

Best wishes to **Scott Awerman** and Alison Leone on their marriage. Their wedding was held on May 21 at the Stone House at Stirling Ridge in Warren, NJ.

Congratulations to **David Sweador** on his engagement to Lisa Trinidad. A November 2017 wedding is being planned.

Firm News

Meisel, Tuteur & Lewis will participate in the **12th Annual CPA Bowl-A-Thon Challenge** on May 25. All money raised will be donated to the Junior Achievement of New Jersey. ■

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Renting a Car? Here's What You Need to Know.

covered by any of the networks in the study. A luxury or exotic car is defined as an automobile with a price exceeding $50,000 by all the networks except Visa, which leaves that discernment vague. Additionally, the coverage provided by your credit card will not apply to vans, trucks, pickup trucks, motorcycles, and off-road vehicles. Furthermore, for American Express cardholders, several SUVs will not be eligible for coverage.

Finally, there are additional restrictions relating to where and for how long you rent a vehicle. Coverage is restricted to 31 days for most cards, less in some cases. Visa allows up to 31 days abroad but restricts coverage on domestic rentals to 15 days. There are no national restrictions for Discover except for their Escape card, which will not provide coverage in Israel, Jamaica, The Republic of Ireland and Northern Ireland. Visa also excludes coverages in those countries; while American Express and MasterCard extend exclusions to Australia, New Zealand, and Italy as well.

In summary, we recommend you make three inquiries before renting a car:

1. Verify with your credit card network precisely what restrictions and limitations apply to the specific card you wish to use;
2. Contact the holder of your current auto policy, as some items may be covered if the rental is for personal (not business) use; and
3. Ask the rental company (and the networks you hold credit cards with) if they offer membership discounts, such as those often available to AAA and AARP members. ■

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Milestone Birthdays for Smart Financial Planning

Age 70 – No Additional Benefits

If you haven't already applied to begin receiving social security benefits, now is the time. Benefits increase until the age of 70, so continuing to wait will not earn you any additional benefits.

Age 70 ½ – Required Minimum Distributions

At age 70 ½ you must begin taking Required Minimum Distributions from your retirements plans and paying taxes on that money, whether you need it or not. Don't be discouraged by the tax requirement. The fact that you have money to draw from at age 70 suggests that you worked hard, made good choices, and can now enjoy the rewards. Be aware that the first distribution must be taken by April 1st of the year following this half-birthday. The penalty for missing the deadline is 50 percent of the distribution amount.

Please don't hesitate to contact your MT&L adviser with any questions you may have about these milestones or how to prepare for them. ■

Enjoy your summer!

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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.

- **2016 Inflation Adjustments Announced for Two Tax Breaks:** The "Protecting Americans from Tax Hikes Act of 2015" (the PATH Act) made permanent the annual election to expense up to $500,000 of assets placed into service during the year. This dollar limitation begins to phase out when the amount of eligible assets placed into service during the year exceeds $2 million. The PATH Act also provided for post-2015 inflation adjustments to these dollar amounts. The IRS announced that for tax years beginning in 2016, the $500,000 dollar limitation remains unchanged, but the investment ceiling increases to $2,010,000.
- **Cuba Removed from the List of Sanctioned Countries:** Taxpayers can't claim a foreign tax credit for income taxes paid or accrued to any country if the income giving rise to the tax is for a period during which the country is on the sanctioned list. This means that the U.S. has designated the country as one that supports international terrorism, or has severed or does not conduct diplomatic relations with the country. Additionally, income derived from any controlled foreign corporation (CFC) from any foreign country while that country is on the sanctioned list is considered "subpart F income," meaning the CFC's U.S. shareholders are taxed on such income even if it's not actually distributed to them. Cuba used to be on the list of sanctioned countries, but effective December 21, 2015, it has been removed from this list.
- **Cents-Per-Mile Valuation of Personal Use Updated:** An employee's personal use of an employer-provided auto must be treated as fringe benefit income and valued using one of several methods. One of the acceptable methods allows employers to value personal use at the mileage allowance rate (54¢ per mile for 2016). However, the cents-per-mile method may be used only if the auto's fair market value does not exceed $12,800, as adjusted for inflation. The IRS has announced that the inflation-adjusted figures for vehicles first made available to employees for personal use in 2016 are $15,900 for autos (down from $16,000 for 2015) and $17,700 (up from $17,500 for 2015) for trucks, vans, and passenger autos and SUVs built on a truck chassis (including minivans).

- **Controversial Charitable Contribution Substantiation Regulations Withdrawn:** The IRS has withdrawn proposed regulations issued last September that would have put in place an optional donee reporting procedure for substantiating charitable contributions of $250 or more. The regulations caused controversy because, even though the procedures contained in them were optional, donee organizations that elected to use those procedures would have had to obtain, store, and send social security numbers to the IRS donor, causing a potential identity theft problem.
- **Widened Exclusion for Identity Protection Services:** Businesses and agencies of all types make significant efforts to secure the personal information of their customers and employees, but data breaches nonetheless occur. In response to such data breaches, organizations often provide identity protection services, credit reporting and monitoring services, identity theft insurance policies, identity restoration services, or other similar services to the individuals whose personal information may have been compromised. In 2015, the IRS announced that it would treat as nontaxable the cost of identity protection services provided at no cost to customers, employees, or other individuals whose personal information may have been compromised in a data breach. Now, the IRS has announced that it also won't tax identity protection services provided free to employees or other individuals before a data breach occurs.

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Tax Update

- **President Signs Bill Permanently Banning State and Local Taxation of Internet Access:** On February 24, 2016, President Obama signed the Trade Facilitation and Trade Enforcement Act of 2015, which makes permanent the ban on state and local taxation of internet access or the imposition of multiple and discriminatory taxes on internet commerce. The existing moratorium, originally enacted by the Internet Tax Freedom Act and extended multiple times, had been set to expire on October 1, 2016. The original moratorium included a grandfather clause to give states that were taxing internet access some time to transition to other sources of revenue. This legislation gives those states - Hawaii, New Mexico, North Dakota, Ohio, South Dakota, Texas and Wisconsin - additional time by delaying the phase-out of the grandfather provision until June 30, 2020.

- **New Jersey Corporate Electronic Filing and Payment Mandate:** The New Jersey Division of Taxation ("Division") has mandated electronic filing (e-filing) and payment for corporate business taxpayers for tax years beginning on or after January 1, 2016. There is currently no option to opt out of this mandate. The Division will not consider a business's desire to opt out of e-filing, ignorance of the law, or reluctance to provide bank account information as reasonable cause to not follow the mandate. An amended return is currently the only return that is an exception to this mandate and amended returns may not be filed electronically at this time. Also, the e-filing mandates do not apply to banking and financial returns ■

What Your 2015 Income Tax Dollars Really Paid For

Have you ever wondered what your income tax dollars pay for?

The answer is: A lot of things.

The National Priorities Project broke down how much of the $4.2 trillion federal budget last year was allocated to different areas. Then it applied those percentages to the average American's federal tax bill.

Let's say you paid $40,000 in income taxes for 2015. Here is how the federal government spent your money:

- $11,473.61 on health programs
- $10,151.16 on the Pentagon and the military
- $5,464.79 on interest on the debt
- $3,202.86 on unemployment and labor programs
- $2,373.11 on veterans benefits
- $1,842.27 on food and agriculture programs
- $1,420.27 on education programs
- $1,161.53 on government expenses
- $769.31 on housing and community programs
- $639.01 on energy and environmental programs
- $597.82 on international affairs programs
- $463.64 on transportation funding
- $440.62 on science funding

Care to know exactly how much of your money went to each of these areas? Visit the NPP's website and plug your numbers into their federal tax receipt calculator to find out:

www.nationalpriorities.org/interactive-data/taxday/. ■