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INSIGHT

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CHANGES TO WHITE COLLAR EXEMPTION

Submitted by Kathy Peterson

In 2014, President Obama directed the Department of Labor to update and modernize the regulations governing the exemption of executive, administrative, and professional (EAP) employees from the minimum wage and overtime pay protections of the Fair Labor Standards Act (FLSA or Act). After an extensive review of average salaries, as well as roles and responsibilities of salaried employees around the country, the DOL responded to the President's request.

The full text of the Final Rule is available at the Federal Register Site. It focuses primarily on updating salary and compensation levels needed for EAP workers to be exempt (from overtime pay). The key provisions are as follows:

1. The standard salary level is set at the 40th percentile of earnings of full-time salaried workers in the lowest wage Census Region (currently the South), which is $913 per week or $47,476 annually for a full-year worker.
2. The total annual compensation requirement for highly compensated employees subject to a minimal duties test is set to the annual equivalent of the 90th percentile of full-time salaried workers nationally, which is $134,004.
3. A mechanism has been established for automatically updating the salary and compensation levels every three years to maintain the levels at the above percentiles and to ensure that they continue to provide useful and effective tests for exemption.
4. Employers are allowed to use nondiscretionary bonuses and incentive payments (including commissions) to satisfy up to 10 percent of the new standard salary level.

The Final Rule makes no changes to the duties tests. The employee's job duties must primarily involve executive, administrative, or professional duties as defined by the regulations. The Department expects that the standard salary level and automatic updating will work effectively with the duties test to distinguish between overtime-eligible workers and those who may be exempt.

The effective date of the Final Rule is December 1, 2016. As more clarifications are available we will continue to bring you additional updates.

Start your midyear planning with these tax savers

As you get ready for midyear tax planning, keep these lesser-known tax breaks in mind.

Residential energy credit. You can claim a 10% energy credit for qualified improvements (up to a lifetime maximum of $500) when you improve your home with insulation, windows, and certain types of roofing. This credit is presently set to expire after 2016.

Commercial building energy deduction. The above-the-line deduction for energy efficiency improvements to lighting, heating, cooling, ventilation, and hot water systems in your commercial building is currently available through December 31, 2016.

Straight-line depreciation for certain qualified assets. The 15-year straight-line depreciation deduction for qualified leasehold, restaurant, and retail improvements is now permanent.

Contact us for more suggestions for reducing your 2016 federal income tax bill.

Easy ways to ruin your credit score

Investor Warren Buffet once said, "It takes 20 years to build a reputation and five minutes to ruin it." The same maxim applies to good credit. Stellar credit scores don't happen overnight or by accident. Instead, you have to exercise financial discipline, sometimes for years. The reward: lenders who are willing to offer mortgages and car loans at favorable interest rates.

Unfortunately, like a good reputation, a strong credit score can easily be ruined. Here are three simple ways to devastate your credit score.

- Max out your credit cards and continually fail to make required payments. Your credit score is a number, generally between 300 and 850 (worst to best), that lenders use when deciding whether to extend credit. About 35% of your credit score is based on your payment history. Paying late or paying less than required minimums can wreak havoc on your score and may signal to lenders that you're overextended.

- Cosign a loan for an irresponsible friend. There's a reason your pal needs a cosigner – and it isn't due to being a good credit risk. When you cosign for a loan, the status of the loan will appear on your credit report. Adding insult to injury, if your friend defaults, you're responsible for the unpaid balance.

- Close or open credit card accounts in quick succession. Either move can adversely affect the ratio of how much you owe in relation to your credit limits. As this ratio climbs, your credit score will tend to sink. Say, for example, you have three credit cards and each has a $1,000 limit. You carry a balance of $500 on one of those accounts. That's a credit utilization ratio of $500 to $3,000 or about 17%. If you close one of the accounts, the ratio will jump to 25% ($500/$2,000). Though you haven't accumulated more debt, your credit score may be hurt.

Be careful with your credit. Negative events can impact your rating for a long time, making lenders reluctant to offer you money.

Keep up with section 179 depreciation changes

Did you know that a recent law made changes to the section 179 expensing election for 2016? These modifications took effect as of January 1. Here's what to consider as you make asset purchasing decisions this year.

Change #1. Beginning in 2016, section 179 is indexed for inflation. This year, the basic section 179 expensing limit will be $500,000. That limit is reduced dollar-for-dollar once your purchases exceed $2,010,000.

Change #2. The definition of "section 179 property" now permanently includes computer software and real property such as qualified leasehold and retail improvements and restaurant property. That means you can elect to use section 179 expensing when you purchase those assets.

Change #3. You may be able to deduct more of qualified leasehold and retail improvements and restaurant property in 2016. Beginning this year, the law eliminated the $250,000 cap on the amount of section 179 you could claim for this property.

Change #4. Beginning in 2016, air conditioning and heating units are eligible for section 179 expensing.

Contact us for help in maximizing the section 179 deduction for your business asset purchases.

2015 UNIFORM CPA
EXAMINATION PASSING RATES

SECTION	1ST 1/4	2ND 1/4	3RD 1/4	4TH 1/4	CUM
AUD	44.56%	49.21%	48.20%	46.74%	47.28%
BEC	53.41%	57.55%	59.22%	55.00%	56.48%
FAR	44.14%	48.90%	50.35%	42.84%	46.75%
REG	47.94%	50.99%	51.33%	47.15%	49.43%

Source: aicpa.org

The 2015 quarterly passing rates for the four areas covered by the exam once again demonstrate how challenging the CPA test is. Insight currently has 12 CPAs on staff to provide you with quality tax, audit, and accounting services.

Make July business tax planning time

Looking for suggestions to reduce your 2016 business tax liability? Here are three tips to consider as summer gets underway.

1. Business trips. When you travel on business this summer, you can write off your expenses – including airfare, lodging, and 50% of the cost of meals – if the primary motive of the trip is business-related. Costs attributable to personal side trips are nondeductible. If you travel by car, deduct actual business-related auto costs or a flat rate of 54 cents per mile (plus tolls and parking fees).

2. Hire your child. Does your teenaged child need a summer job? If you hire your child, the wages paid for actual services rendered are deductible, the same as wages of other employees. The wages will be taxable to your child at your child's tax rate, which may be lower than your rate or that of your business.

3. Job credits. When your business hires workers from certain "target groups," such as veterans and food stamp recipients, you may be able to claim the Work Opportunity Tax Credit. A special summertime credit is available for hiring youths residing in empowerment zones or enterprise communities who work for you between May 1 and September 15. The Work Opportunity Tax Credit gives employers a tax credit for hiring veterans and others who are members of "target" groups. The maximum credit is generally $2,400 per qualified worker.

Normally, you have 28 days after an eligible worker's first day to complete the necessary paperwork for the credit. But the 28-day rule has been extended for some new workers that you hired between January 1, 2015, and May 31, 2016. For certain employees hired within that time period, the deadline for filing the required form is June 29, 2016. If you're a business owner, the extended date provides an opportunity to review last year's personnel files for credit-eligible employees. Contact us for details

We have more summertime tax planning suggestions for your business. Contact us today.

Are bad business debts a tax deduction?

If you're in business long enough, you'll run into a customer who doesn't pay you. Despite your best efforts, you may conclude that you'll never receive the money. Do you have a tax-deductible bad debt? The answer depends in part on whether you operate your business using the cash or accrual method of accounting.

Cash. When you use the cash method, you report taxable income when you receive it and deduct expenses when they are actually paid. While this makes your bookkeeping simple, you get no direct deduction for a bad debt. Since the income was never received, it was never reported or taxed. However, you will still be able to indirectly deduct the labor, merchandise, and overhead used to provide for the goods or services that were delivered but not paid for.

Accrual. Under the accrual method, you report income when you send an invoice to the customer. Expenses are deducted when they are due, regardless of when you pay them. This method is more complicated than the cash method, since you must track accounts receivable and accounts payable. However, because you report taxable income when you bill your customers, you have a bad debt deduction that you can claim as an operating expense if your customers fail to pay.

For more information about accounting for bad debts, contact us.

SPOTLIGHT ON INSIGHT

From Abacus to Paperless – A Reflection by Matt Pletcher

As I'm approaching the final years of my career, I thought it would be fun to share a few reflections of practicing accounting over the last 36 years.

Graduating in 1980 from Manchester College, the country was in the midst of a very deep recession. It was referred to as the period of "malaise". The election of 1980 was in full swing with Ronald Reagan vs. Jimmy Carter.

Ronald Reagan eventually was elected, and the following year, the Economic Recovery Act of 1981 was legislated. This tax act was initially responsible for a remarkable economic recovery. It reduced the top marginal rate from 70% to 50%, introduced accelerated depreciation for equipment, eliminated the marriage penalty, and made a new form of saving for retirement available, known as the IRA.

The next major act was the Tax Reform Act of 1986 which greatly simplified the tax code, eliminating many deductions but also reducing the top marginal rate to 28%. It brought in many new concepts such as, making economic decisions on the merits versus tax implications. The Act was successful in simplifying the Code, unfortunately, there have been tens of thousands of modifications since then, and our tax system has never been more punitive or complicated.

Personal computers were hitting the market. My first computer was an IBM AT with over 15 MG of hard drive. Back then, we thought that was all the horsepower we would ever need. The ability to prepare a financial statement and actually store it digitally was the end of carbon paper to make duplicates.

Going to lunch was a much more relaxing endeavor. There were no cell phones to interrupt conversations and an actual cocktail might be ordered. Returning to the office was less stressful with maybe 5 or 6 pink phone message sheets on my desk. Now it's a flashing light with 5 or 6 messages, plus 25 emails.

If someone needed a copy of a document, you would place one in the mail with the hope that it would get there within 5 business days. The introduction of the fax machine changed that. Add another 20 years, and now we all know how electronic documents can make responses an immediate necessity.

Now the big drive is paperless. Rather than file rooms full of documents, they are now full of snacks for our team members. Files are all maintained on the cloud and our clients can even set up a personal web portal to access them on their own. We even scan contracts and agreements and store them for our clients because somehow things get misplaced from 15-20 years back. We are able to access and provide copies to our clients.

Although our clients have endured many changes in our business as well as their own, there is one thing I hope never changes. That is the fact that our clients have always been decent hard-working people. I've enjoyed the many relationships I've developed over the years, and watched as sons and daughters took over their parent's businesses, or participated in a successful sale of a business an individual spent his or her life on building. Nothing is more rewarding than to see a client successfully reach a goal. Or better, complain about how much tax they have to pay, because the unsuccessful ones don't usually pay a lot of tax.

Seriously, the relationships are the most valued part of my career, so I'd like to thank all of you for letting me be part of your success for the last 36 years, and wish you all continued prosperity.