ACHIEVING SUCCESS BEGINS WITH
THE INSIGHT EDITION
accounting group

INSIGHT

VOLUME 8, ISSUE 2 AUGUST 2017

page 1 Pending Tax Developments
page 2 Your HSA as a retirement tool – the facts
page 2 Five home office deduction mistakes
page 3 Tax-free income
page 3 Learn from the 'best places to work'
page 3 When it comes to investing, time really is money
page 4 Real estate investor vs. professional: Why it matters
page 4 4 pillars of internal controls fortify against fraud
page 5 Have adult children? Take steps to avoid medical access denial
page 5 Train yourself to avoid email overload
page 6 Spotlight on Insight

Pending Tax Developments

Courtesy of Thomson Reuters – Dated July 17, 2017

The following is a summary of important tax developments that have occurred in the past three months that may affect you, your family, your investments, and your livelihood. Please call us for more information about any of these developments and what steps you should implement to take advantage of favorable developments and to minimize the impact of those that are unfavorable.

Healthcare bill moves through Congress. On May 4, the House of Representatives passed along party lines the American Health Care Act (AHCA), the Republican plan to repeal and replace the Affordable Care Act (ACA, also known as Obamacare), as amended. The House-passed bill would need to be reconciled with the Senate's version of health reform legislation.

The AHCA would repeal virtually all of the ACA tax provisions, including the following. (Except as otherwise provided, the repeal would go into effect in 2017).

- The penalty on individuals who don't carry adequate insurance, retroactively effective beginning in 2016.
- The employer shared responsibility penalty (i.e., the penalty that applies to certain employers who don't offer health care coverage for its full-time employees, or offers minimum essential coverage that is unaffordable or does not provide minimum value). The repeal would be retroactively effective beginning in 2016.
- The premium tax credit that makes health insurance premiums more affordable for certain low-income taxpayers. The repeal would be effective in 2020 (and a modified, age-based tax credit would be provided pending its repeal).
- The 3.8% net investment income tax (NIIT) on certain higher income individuals.
- The 0.9% additional Medicare tax on certain higher income individuals, effective 2023.
- The higher floor beneath medical expense deductions. Under current law, the floor is 10% (effective in 2013 for taxpayers under age 65 and in 2017 for taxpayers 65 and older). The AHCA would reduce the floor to 5.8% for all taxpayers beginning in 2017.
- The small employer health insurance credit, effective 2020.
- The dollar limitation (currently $2,700) on health Flexible Spending Account (FSA) contributions.
- The disallowance of any deduction for compensation in excess of $500,000 for certain health insurance executives.

The 40% excise tax (the so-called "Cadillac" tax) on high cost employer-sponsored health plans, would be delayed until 2026, but would not be repealed.

On July 13, the Senate leadership released its healthcare bill, renamed the Better Care Reconciliation Act of 2017 (BCRA), as amended, for consideration. It left most of the provisions of the House-passed bill intact, but notably did not call for the repeal of the 3.8% NIIT, the 0.9% additional Medicare tax, or the disallowance of any deduction for compensation in excess of $500,000 for certain health insurance executives.

Your HSA as a retirement tool – the facts

Health Savings Accounts (HSAs) are a great way to pay for medical expenses, and since unused funds roll over from year to year, the account can also provide a source of retirement funds in addition to other plans like 401(k)s or IRAs. But be aware of how HSAs compare to other retirement investment tools.

- HSAs work best when they are used to pay for qualified medical expenses. Neither your original contributions to an HSA nor your investment earnings are taxed when used this way.
- There is no required minimum distribution after you reach age 70½, like there is with 401(k)s and IRAs.
- You can only contribute to an HSA if you have a high deductible health insurance plan. The downside of these plans is that you pay more out of pocket each year when you need to use health services.
- Annual contributions to HSAs are limited to $3,400 a year for individuals and $6,750 a year for families (add $1,000 for people aged 55 or older).
- HSAs typically have fewer investment options compared with other investment tools including 401(k)s and IRAs. They also often have high management and administrative fees.
- Before you reach age 65, non-medical withdrawals from HSAs come with a whopping 20 percent penalty, plus they are taxed as income.
- Even after age 65, both contributions and earnings are taxed when they are withdrawn for non-medical expenses. In this way, HSAs compare unfavorably with 401(k)s and IRAs, which end their early withdrawal period earlier, at age 59½. They also have lower early withdrawal penalties of just 10 percent.

HSAs are a powerful tool to help manage the ever-rising costs of health care. Knowing the rules and the costs

Five home office deduction mistakes

Here are five common mistakes of those who deduct home office expenses.

1. **Not taking it.** Some believe the home office deduction is too complicated, while others believe taking the deduction increases your chance of being audited.
2. **Not exclusive or regular.**
   - *Exclusively:* Your home office cannot be used for another purpose.
   - *Regularly*: It should be the primary place for conducting regular business activities, such as record keeping and ordering.
3. **Mixing up your other work.** If you are an employee for someone else in addition to running your own business, be careful in using your home office to do work for your employer. Generally, IRS rules state you can only use a home office deduction as an employee if your employer doesn't provide you with a local office.
4. **The recapture problem.** When selling your home you will need to account for any home office depreciation. This depreciation recapture rule creates a possible tax liability for many unsuspecting home office users.
5. **Not getting help.** The home office deduction can be tricky, so ask for help, especially if you fall under one of these cases.

Tax-free income

Yes, that's correct, there are some forms of income you receive that may be tax-free. Here is a list of eight common sources of tax-free income.

1. Gifts. Gifts you receive are not taxable income to you. In fact, they are not subject to gift tax to the person giving the gift as long as the gifts received in one year from one person do not exceed $14,000.

2. Rental income. If you rent your home or vacation cottage for up to 14 days, that rental income does not need to be reported. Homeowners often can earn some tax-free income by renting out a home while a large sporting event (Superbowl or a golf event) is in town.

3. Child's income. Up to the standard deduction amount ($6,350 in 2017) in earned income (wages) and $1,050 in unearned income (interest) for children is not taxed. Excess earnings above these amounts could be taxed and $2,100 in unearned income is taxed at the parent's higher tax rate.

4. Roth IRA earnings. As long as you meet this retirement account type's rules, earnings in a Roth IRA are not taxed.

5. Child support revenue. Income you receive as child support is not deemed to be taxable income. On the other hand alimony received is taxable income.

6. Home sales gains. Up to $250,000 ($500,000 for married filing jointly) in gains on the sale of a qualified principal residence is not taxable.

8. Refunds. Federal refunds (technically you've already accounted for this income) and most state refunds for non-itemizers are also tax-free.

This is by no means a complete list of tax-free income, but it's nice to know that some areas of tax law still benefit taxpayers.

Learn from the 'best places to work'

Google, Facebook, and Southwest Airlines are among the top five companies on job search site Indeed's "Best Places to Work 2017" list. You may not have the resources of these large companies, but you can incorporate some of their ideas into your company's culture.

Respect. The best companies cultivate a culture of respect, according to a poll conducted by the Society for Human Resource Management. Employees say they feel valued by their leaders and their coworkers regardless of their background, ethnicity, religion, sexual orientation, or gender.

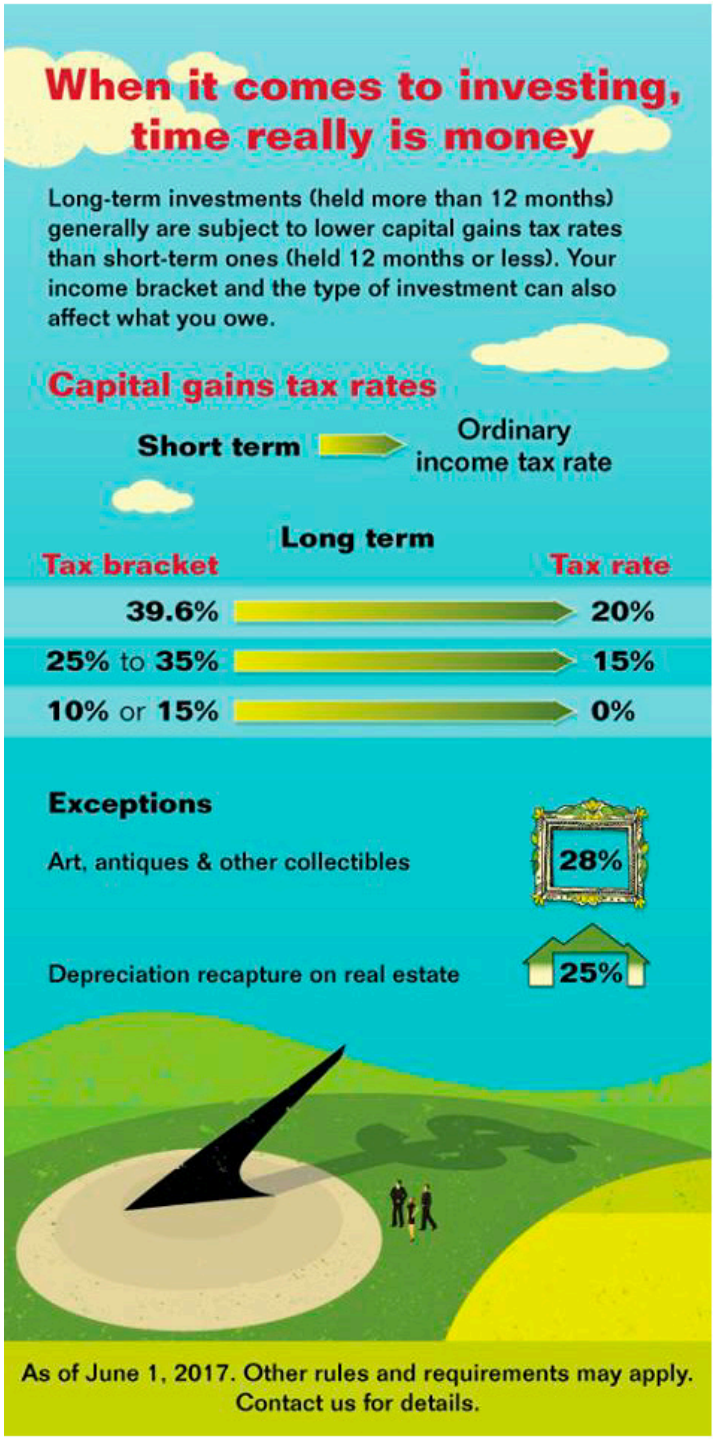
Opportunities for growth. Leaders at the best companies evaluate staff regularly and look for ways to challenge them in new areas.

Communication is key. At the best companies, leaders and staff talk constantly. The organization regularly seeks feedback about its culture, practices, and operational challenges. Leaders are accessible and open to discussion about business problems and successes.

Clear goals. The best companies openly state well-defined objectives and the steps required to achieve them, according to Fortune magazine.

Accountability. The best companies make sure workers are confident they'll be rewarded for performance and held responsible for achieving their objectives.

Bottom line: When you treat your employees with respect and keep challenging them, they're less likely to leave for greener pastures.



Real estate investor vs. professional: Why it matters

Income and losses from investment real estate or rental property are passive by definition —unless you're a real estate professional. Why does this matter? Passive income may be subject to the 3.8% net investment income tax (NIIT), and passive losses generally are deductible only against passive income, with the excess being carried forward.

Of course the NIIT is part of the Affordable Care Act (ACA) and might be eliminated under ACA repeal and replace legislation or tax reform legislation. But if/when such legislation will be passed and signed into law is uncertain. Even if the NIIT is eliminated, the passive loss issue will still be an important one for many taxpayers investing in real estate.

"Professional" requirements

To qualify as a real estate professional, you must annually perform:
• More than 50% of your personal services in real property trades or businesses in which you materially participate, and
• More than 750 hours of service in these businesses.
Each year stands on its own, and there are other nuances. (Special rules for spouses may help you meet the 750-hour test.)

Tax strategies

If you're concerned you'll fail either test and be subject to the 3.8% NIIT or stuck with passive losses, consider doing one of the following:

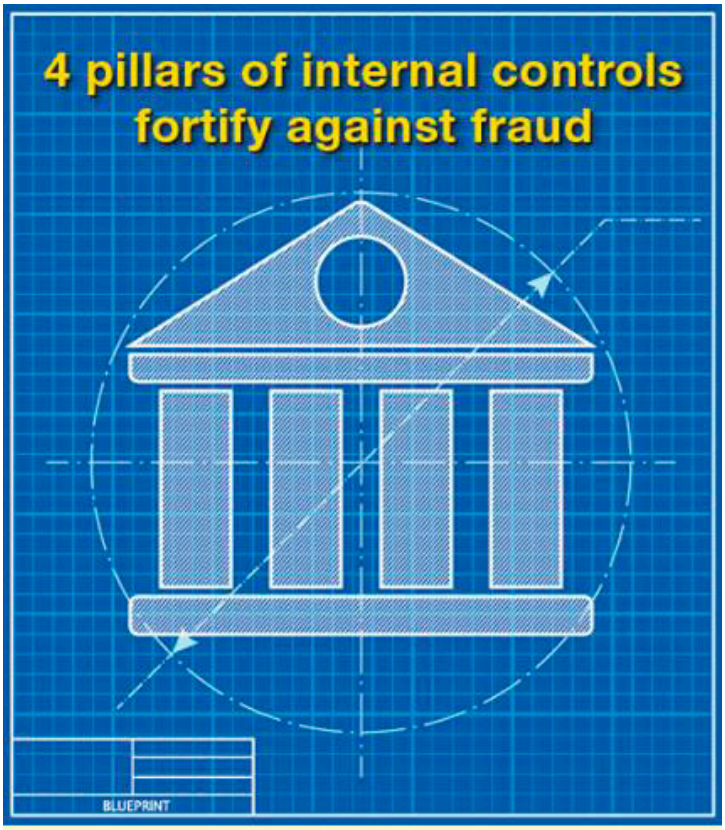
Increasing your involvement in the real estate activity. If you can pass the real estate professional tests, the activity no longer will be subject to passive activity rules.

Looking at other activities. If you have passive losses from your real estate investment, consider investing in another income-producing trade or business that will be passive to you. That way, you'll have passive income that can absorb some or all of your passive losses.

Disposing of the activity. This generally allows you to deduct all passive losses — including any loss on disposition (subject to basis and capital loss limitations). But, again, the rules are complex.

Also be aware that the IRS frequently challenges claims of real estate professional status — and is often successful. One situation where the IRS commonly prevails is when the taxpayer didn't keep adequate records of time spent on real estate activities.

If you're not sure whether you qualify as a real estate professional, please contact us. We can help you make this determination and guide you on how to properly document your hours.



You've built your business to weather economic cycles, market vicissitudes and a shifting competitive landscape. But to survive the test of time, your company needs to prevent fraud by resting on the following four pillars:

1. **Ethics.** Take strong ethical positions, document them formally and hold employees to them.
2. **Segregation of duties.** Spread out accounting and other sensitive tasks among several individuals.
3. **Detailed records.** Scrupulously record financial transactions and review them regularly for suspicious variances.
4. **Audits.** Periodically perform internal audits and have an external auditor determine whether financial statements meet accepted standards.

Contact us for more information on internal controls.

Have adult children? Take steps to avoid medical access denial

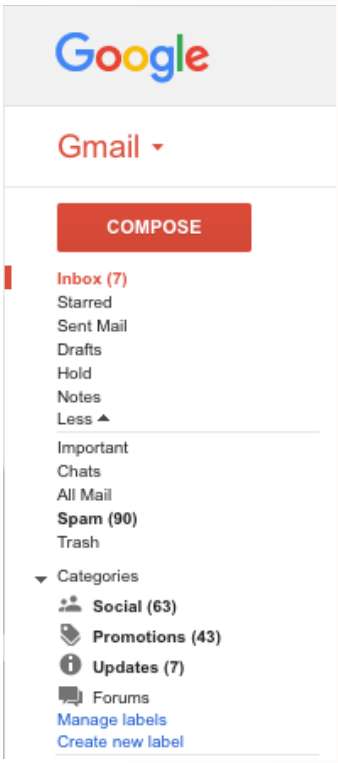
Imagine your college-aged daughter has an accident while away at school and ends up in the emergency room. When you call the hospital, you are denied information about her care because you do not have the proper forms signed. Under the Health Insurance Portability and Accountability Act (HIPAA), you do not have legal access to your child's health information after they reach age 18, even if your child is still your dependent and their health insurance coverage is in your name. To avoid this administrative nightmare, take the following steps.

1. Make sure your **health insurance coverage** will cover your child at his or her new campus home.
2. Have your son or daughter sign a **HIPAA authorization form** allowing you access to their medical information.
3. Create a **multipurpose medical power of attorney authorization**, which will not only give you authorization to help make medical decisions, it can also include an advance directive or living will.
4. Scan two copies of these documents – one for you and one for your child – and keep them in a secure place along with a copy of your student's insurance card.

Train yourself to avoid email overload

Reproduced from CGMA Magazine, author Neil Amato

Want to save time at work? Rethink your approach to email.



That's the message of a couple of productivity experts, who themselves follow strict rules for when and how they read and reply to email messages.

Take Hayley Watts, a corporate trainer with Think Productive. Send her an email message, and you get a reply that starts:

"Thanks for getting in touch. I process my emails once a day."

Not everyone is that disciplined, and not every person's job can allow for being away from their inboxes so long.

But Watts's message shields her from the distraction of a vibration, ding, or other notification of each message. And the next time someone considers writing her a message, they may talk themselves out of it before hitting send.

Bob Pozen, a productivity expert, MIT instructor, and the author of the book Extreme Productivity, offers three tips for workers to improve productivity with regard to email volume.

1. **Train yourself to check messages once every two hours.** "Some people look at their email every other minute," he said. "It means they're spending a huge amount of time on things that are not very important."
2. **Skip messages that aren't important.** Pozen estimates that workers can skip 60% to 70% of the messages they receive, and he recommends setting up filters that funnel email that is not vital – based on the sender or the subject. Instead of looking at every offer for software, for example, set up filters for those senders that you can check weekly or monthly.
3. **Respond immediately to significant messages.** Pozen said significance can be based on the content or the sender and that most people can determine on a quick read if a message is important. If a more measured response is required, then set a calendar reminder to reply later, but not too late. Pozen has an acronym to follow for this practice: OHIO – only handle it once.

Pozen is not a proponent of trying to get an inbox down to zero unread messages – for one reason: "If you're reading all your emails, you're making a big mistake," he said.

Some people save messages, insisting they will get to them later. But discipline regarding which need reading and which need deleting is difficult for many.

Les Nettleton, the director of information technology for Bourgeois Bennett LLC, a CPA firm in Metairie, Louisiana, has this solution: "You highlight everything that's older than one month and you hit the 'Delete' key and you don't worry about the ramifications."

SPOTLIGHT ON INSIGHT

Congratulations to our newly promoted team members!

Sue Konopinski
Manager

Mariko Claassen
Manager

Nick Woods
Senior Analyst

We are fortunate to have these great team members and look forward to their continued success!

Insight at the Fair

Danielle Thompson assists with a courtesy shuttle

Ronda Chupp fair board member in charge of Inner Grounds Entertainment

Mary Grimmer and Ronda Chupp prepare to run in the pre-parade 5k Road Run.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.