Year-End
Newsletter
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H&R PYE'S TAX SAVER

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INSIDE THIS ISSUE

Discussing Financial Issues with Your Spouse

Courtesy of NSTP

My years in practice have allowed me to witness certain family roles and responsibilities between spouses. In many cases I find that only one of the spouses has an understanding of the tax and financial issues. With the hectic busy lives that we live, it is difficult to grasp much of what is going on in our lives on a daily basis when it comes to money. The financial environment has changed dramatically. Payroll checks are directly deposited into a bank account; mortgage payments, car payments, utility bills, etc. are paid via electronic fund transfers.

The reason I bring this up is that there are always *life changes* which will impact the need to know about <u>your</u> financial life. I have dealt with clients whose life was changed in a heartbeat because of the death, illness or divorce of a spouse and they had little or no idea about the money issues that they now needed to face. Some of them had no idea how much debt existed, did not know what assets they owned and how much money was in the bank, not to mention health insurance coverage, deductibles, and co-pay information. In order to get ready, start with a 3 ring binder and fill it with the following information:

List the names of your lawyer, accountant, financial planner, stockbroker, insurance agent and every other important outside party with whom you have financial ties. Make sure to include their contact data such as address, phone numbers, e-mail addresses, etc.

Insert a copy of your will, living trust, insurance policies, including life, health, disability, umbrella policies, auto, homeowner's, etc.

List all assets including bank accounts, brokerage accounts, ownership in any business, IRAs, pensions, social security benefit statements, homes, cars, boats, land, collectibles, etc. Include college savings plans that you have established for children, grandchildren, etc. If there are assets which are not in joint ownership you need to determine if there is a need to have the assets transferred to a joint account. You may even have to determine if jointly owned assets should be separated.

List all debts including mortgages, lines of credit, credit cards, auto loans, school loans, business debts, etc. Make sure you list how these debts are paid and the dates they are due for payment as well as a priority list as to which debts should be paid before others in case of liquidity shortages.

In some situations spouses may be planning on having the financial affairs turned over to a 3rd party such as a trusted individual who is skilled in financial issues, such as an adult child, other family member, close friend or a professional who is hired to take over the finances. In any case, the spouse should be made aware of the plan so that they are in the loop and know who to contact and who will be taking responsibility for their financial life. Informing the spouse about the skills and capabilities of these individuals or institutions is important.

If you would like to discuss these types of financial and tax issues contact me soon so that you can feel confident that the stress to you and your loved ones is reduced.

Sole Proprietors: Consider Hiring Your Kids

Courtesy of NSTP

If you are operating your business as a sole proprietor then you have a great opportunity to reduce your federal income tax and self-employment tax. In most states you will also reduce the State income tax. As a sole proprietor you include a Schedule C with your Federal Form 1040 which reports the revenue and expenses of your business. The net profits from the Schedule C are included in your gross income and in your self-employment income on Schedule SE which is also part of your Form 1040. The income tax is assessed based on your marginal tax bracket and your self-employment tax is assessed at a rate of 15.3% on the first $118,500 in 2015 and at 2.9% on the amount above $118,500.

The law allows sole proprietors to hire their children as employees. For those children who have not reached age **18** the law does not require the **7.65%** withholding and **7.65%** matching of Social Security and Medicare Tax. As a result, this is a direct **15.3%** tax savings for the family unit. The child must provide a legitimate function to the operation of the business. The child must be issued a W-2 form which reports all the Federal wages for the year. In today's world these children are skilled in using computers and analyzing the use of software programs and time saving skills through the use of data entry, filing, etc.

In 2015 each taxpayer has a standard deduction amount of $6,300. If the child is under the age of 18 then the savings for self-employment tax is $963.90 (15.3% x $6,300). If the parent is in the 25% federal income tax bracket then it saves another $1,575 (25% x $6,300). This is a total tax savings of $2,538.90 per child. If the child is age 18 or older then the parents' marginal tax bracket of 25% saves income tax of $1,575 and the 15.3% is a trade-off between parent and child but the parent can deduct the 7.65% matching as a Schedule C expense instead of only a deduction for calculating adjusted gross income. In addition, as the Schedule C income decreases, the Adjusted Gross Income decreases and has an impact on provisions which phase out benefits such as:

- **21** Dependent Care Credit
- **24** Child tax credit
- **25A** Educational tax credit
- **36B** Premium Assistance Credit for Health Care Premiums
- **67** Miscellaneous Itemized Deductions Subject to 2% of Adjusted Gross Income
- **68** Phase-out of itemized deductions on Schedule A
- **151** Phase-out of personal exemptions for the taxpayer and dependents
- **219** Deductible IRA contributions
- **219** Roth IRA contributions
- **221** Student Loan Interest Deduction
- **222** Qualified Tuition and Fees Deduction
- **469** The special passive activity loss on rental real estate for active participation
- **530** Coverdell Education plan contributions

By reducing your Adjusted Gross Income you will also reduce the base for purposes of the Alternative Minimum Tax.

If you want to know more about the opportunities of hiring your children because you are a sole proprietor please contact me soon.

2015—A Year for Adventures

H&R Pye's

There's no denying that 2014 was a difficult year for all of us here at H&R Pye's, but through teamwork and dedication, we did what we had to do and we got through it. After such a challenging year, we knew we needed to really have fun in 2015, so that is exactly what we did. Of course, the beginning of every year we dedicate nearly all of our time to tax season, having appointments with all of our clients, catching up and navigating the IRS. Without that hectic time of year, and without all of you, we wouldn't be able to have the fun and go on the adventures that we love so much.

But once tax season 2015 was over, we were on our way! To celebrate the end of the season, Holly, Linda, and Cheryl—the full-time ladies—took off to spend a couple of days in the most magical place on Earth—no, not Disney World: Foxwoods! The month of May was both busy and exciting. Holly and Cheryl went to fetch

their niece/daughter, respectively, from the real most magical place on Earth (Disney World, of course). Barely home from that, Holly and the whole family, plus Doreen, a year-round crew member who helps out with all sorts of things, cruised away to the beautiful island of Bermuda. Aside from a brief glitch of running aground on a coral reef, the trip was a sunshining success!

The summer and fall had the whole crew running around between tax conferences and the annual HD Vest conference, which took place this year in Dallas, TX. We'd show you a picture but, in case you didn't

know, what happens in Dallas stays in Dallas. Finally, for our last adventure before tax season starts all over again, Holly, Linda, Cheryl, Chelsea (and Cheryl's sister-in-law Jo) made one last trip to Disney World for Halloween. Disney is the perfect place for us to let ourselves enjoy our sillier sides before we get back to the grown-up world of taxes and accounting. But now, with a few good adventures behind us, we're ready for our 2016 tax season—and we can't wait to see you all and thank you for your valued support!

Traditional IRA vs. Roth IRA

Courtesy of NSTP

Are you confused about your choices for deferring taxable income? Is it better to defer now or contribute to a post-tax IRA which then lets you grow your retirement money tax-free? Many factors can contribute to this decision including your age, taxable income bracket or other retirement options. There are many software tools available to help you with these choices. You can get help from your financial advisor or there are many online software tools such as the Vanguard calculator which determines your net benefit after taxes.

What is a Roth IRA?

A Roth IRA is an individual retirement arrangement. It is a personal savings plan that gives you tax advantages for setting aside money for retirement. An account must be designated as a Roth IRA when opened.

What is a SIMPLE IRA?

A savings incentive match plan for employees (SIMPLE) plan is a salary reduction between you and your employer that allows you to choose to reduce your pay by a certain percentage each pay period, and have your employer contribute the salary reductions to a SIMPLE IRA on your behalf. All contributions under a SIMPLE IRA plan must be made to a SIMPLE IRA, not to any other type of IRA. The SIMPLE IRA can be an individual retirement account. If your employer maintains a SIMPLE IRA plan, you must be notified, in writing, that you can choose the financial institution that will serve as trustee for your SIMPLE IRA and that you can roll over or transfer your SIMPLE IRA to another financial institution.

What is an IRA?

An IRA is an individual retirement arrangement. It is a personal savings plan that gives you tax advantages for setting aside money for retirement. An IRA is referred to as a Traditional IRA if it is not a Roth IRA or a SIMPLE IRA. Traditional IRAs include SEP IRAs.

Roth IRA tax advantages and rules compared to a Traditional IRA:

- Contributions to a Roth IRA are not deductible. Active participation in an employer plan is irrelevant. Contributions to a Traditional IRA may be fully or partially deductible subject to whether you are covered by an employer retirement plan.
- If certain requirements are satisfied for your Roth IRA, qualified distributions are tax free. Amounts in your Traditional IRA (including any earnings or gains) are taxed upon distribution.
- Can withdraw Roth IRA contributions any time for any reason without owing taxes or penalties. Early distributions from a Traditional IRA (before you are age 59½) may be subject to a 10% additional tax if no exceptions apply.
- Contributions can be made to a Roth IRA after the participant reaches age 70½. The required minimum distribution (RMD) rules do not apply. Distributions are not required until death of the participant. However, contributions are not allowed past age 70½ to a Traditional IRA and required minimum distributions begin after age 70½.
- Contributions are not allowed to a Roth IRA when modified adjusted gross income (MAGI) is above certain limits. There is no limit on how much you can earn and still contribute to a Traditional IRA, however there may be a limitation on the amount deductible above certain income thresholds.
- You cannot set up a SEP IRA nor a SIMPLE IRA as a Roth IRA.

Contact us for help in assessing your tax situation before making your investment choices. There are significant penalties for excess or ineligible IRA contributions.

Important Notes

In 2016, tax breaks for education will be tightened. If you have a child in college, you need to make sure that they get their 1098-T from their school.

Scammers are now mailing letters to taxpayers on what looks to be official IRS letterhead. This is why it is **absolutely necessary** that you contact your tax preparer as soon as you receive any correspondence that appears to be from the IRS. Remember, the IRS **will never call you** unless they have already sent you a letter.

The Affordable Care Act is just getting tougher with time. If you don't qualify for an exemption, you must have health insurance or you will pay a penalty. The penalty is increasing yearly, so even if you paid it and it wasn't bad last year, you will want to reconsider this year.

You must **always** fill out your Personal Check-Off List and our Client Information Sheet before your tax appointment. Please go to our website at **pyestax.com** to print and fill out your Personal Check-Off List, Client Information Sheet, Engagement Letter, and Disclosure Authorization. All forms are **essential** for us to be able to do your taxes.

Contest Winners

Email Alert Contest: The winners are David and Alaine Pinkham, Brian and Lois Lunn, and Elizabeth Eames. All winners will receive a $50 credit.

Prescheduled Appointment Contest: The winners are Claire Daniels, Taylor Hamilton, Kenneth and Robin Desmond, William and Brenda Merrill, and Joseph and Melinda Renda. All winners will receive a $15 credit.

Confirm Your Appointment Contest: The winners are Ruth Lanagan, Joanne Chick, and Perley Day. All winners will receive a $50 credit.

2016 Contest Deadlines

Sign up for our email alerts on our website (pyestax.com) and be entered into a drawing for a $50 credit—up to three winners. Deadline is **Friday, April 15th**.

Prescheduled Appointment Contest: 5 prizes of $15 credit each. Deadline is **Friday, January 22nd**.

Confirm Your Appointment Contest: Call and confirm your tax appointment by **Friday, January 22nd** and be entered into a drawing for three separate $50 credits.

As always, if you refer a new client to us, you will receive a $10 **credit memo**.

"You must always fill out your Personal Check-Off List and our Client Information Sheet before your tax appointment."

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Celebrating 30 Years!

Thirty years ago, Holly and Ron Pye went into business together to create H&R Pye's Tax and Accounting Service. Despite our loss of Ron in 2014, Holly and her crew have been going strong, continuing to offer the services that both she and Ron have taken pride in providing for so many years together.

Holly would like to thank her staff, both past and present, especially including her sister Cheryl, her other (office) sister Linda, Karl, Chelsea, Carol, Doreen, Travis, and Lynne who have all been here to help out at the office this past year.

And of course, Holly would like to thank you, her clients, for your kind support for the past 30 years. None of this would be possible without you. Thank you.