ClientLine®

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PREPARE FOR IMPACT

Hurricanes affected millions of Americans last summer, creating financial hardships that may last for years. These storms were catastrophic and will have an impact for years to come. However, smaller weather events, from tornadoes and ice storms to wildfires and flooding, can also devastate families and businesses anywhere in the United States.

How do you begin to recover financially from a natural disaster? At least as important, how do you do your best to protect yourself financially?

KNOW YOUR COVERAGE

First, make sure you have the right insurance. Most homeowner and business property insurance policies cover wind, but not flood damage. Private insurers work with the National Flood Insurance Program (NFIP) to sell flood insurance, averaging $878 annually, to individuals and businesses. You can find an agent through the NFIP Referral Call Center at 1-800-427-4661.

ALTERNATIVE LOAN SOURCE

While you can learn whether you qualify for disaster aid through www.disasterassistance.gov, know that most of this aid comes in the form of loans. Still, the loans are generally below market rate and can be a lifeline for individuals and businesses that experience storm damage.

What many individuals may not know is the U.S. Small Business Administration (SBA) provides low-interest disaster loans not only to businesses and non-profit organizations, but to homeowners and renters. While other federal and state agencies may offer disaster relief grants, they are not as available as loans. Most grants, which don't require repayment, can create a taxable event. Talk with your tax professional to learn more.

BE PREPARED

If you own a business, a particularly crucial type of insurance to own is business interruption coverage. This insurance covers typical business expenses like payroll and utilities, whether your firm is physically damaged or not.

Keep receipts and records, both written and, when possible, video, for everything of value in your home or business. You may need them to prove the value of a future claim. Also keep backups of paper and electronic data, either offsite or in the cloud, and records of contacts you would need in the event of a disaster.

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Disaster and Business Taxes

If you own a business damaged or destroyed by a natural disaster, you will have some meager consolation when filling out your tax returns.

Tax Deduction

Losses to businesses are fully tax-deductible. Those businesses eligible for federal disaster relief by the Federal Emergency Management Agency (FEMA) may claim their loss for the tax year of the disaster or the year before (through an amended return). The latter choice, which could result in a tax refund, can help your business recover financially. You cannot declare any losses that you recoup from insurance or other reimbursements.

Grace Period

With a FEMA-designated disaster, the Internal Revenue Service can extend tax return deadlines, including payroll and excise taxes, as it did after the hurricanes earlier this year. The IRS automatically applies filing and payment relief to taxpayers in eligible areas. See IRS Publication 547 for details or talk to your tax professional for additional guidance.

WHEN YOU INHERIT AN IRA

In the first quarter of 2017, Americans owned just under $8.2 trillion in IRA assets. Some of these IRAs will transfer to beneficiaries one day. When spouses are the beneficiaries, complications are typically minor, as they can roll over the account. But when non-spouses become IRA beneficiaries, they have to consider a number of factors.

WATCH YOUR RMDs

Individuals who own an IRA typically must begin required minimum distributions (RMDs) by April 1 of the year after they reach age 70 ½. If you inherit an IRA, the rules are different.

Let's say you inherit an IRA from someone other than your spouse in 2018. You can take RMDs in one of two ways. You could take the entire account within five years of the owner's death. Or you could "stretch" the inherited IRA based on your life expectancy, not the owner's. If you choose the second option, you have up to a year after the IRA owner's death to begin RMDs.

STR-R-R-R-ETCH YOUR RMDs

In the second scenario, calculate your RMDs by dividing the expected number of years left in your life, as determined by the IRS's uniform lifetime tables, into the account balance. A longer life expectancy equals longer and smaller payments, giving your IRA more time to use compounding to grow the account.

COMPLICATIONS AHEAD

If you are a non-spousal IRA beneficiary along with a charity or trust, you have different options. When a non-person is among the beneficiaries, the five-year rule to spend down the account applies to all beneficiaries if the IRA owner died before age 70 ½. If the death occurred after that age, beneficiaries must take RMDs by calculating the owner's life expectancy.

A couple of other caveats: First, make sure you properly re-title the inherited IRA. Second, non-spouses cannot rollover an inherited IRA. Talk to your tax professional if you inherit a non-spousal IRA.

Client PROFILE ••••

George is 71 years old and has returned to work after three years of retirement. He wants to put a little more money away for a comfortable retirement. Where can he still save at 71?

George owns a traditional IRA that required him to begin required minimum distributions by April 1 of the year after he turned 70½, whether he went back to work or not. However, he can contribute to a Roth IRA after that age to the extent he has earned income, within limits.

People who continue working and contribute to a SIMPLE IRA or 401(k) plan can continue to contribute to them after age 70½. However, they also may be required to begin RMDs.

George will owe tax on some or all of his employment earnings if his pay from work and other income exceeds certain limits. If George were younger than retirement age, say 62 to 65, he would likely also lose a portion of Social Security benefits during this time due to work income exceeding low limits.

Client Profile is based on a hypothetical situation. The solutions we discuss may or may not be appropriate for you.

FIVE LAST-MINUTE DEDUCTIONS

As the days left on the calendar fly by, business taxpayers begin to search for ways to reduce their 2017 tax bill. Here's a look at five less common ideas:

1. If you have a family-run business, consider starting a succession plan and deduct the cost of legal help and funding, such as the cost of a life insurance policy.

2. Compare deducting Section 179 equipment and property costs in full up to $500,000 in 2017, versus depreciating the amount over five or seven years.

3. Consider paying bonuses and lump sum raises this year rather than next if you expect more income in 2017. If you expect to earn more in 2018, consider delaying bonuses and raises until then.

4. Ramp up your marketing efforts before year-end. Make your web presence more robust, expand your social media presence or consider traditional advertising avenues.

5. Consider increasing your basis in a partnership or S corporation and deduct a loss on your 2017 return.

ANOTHER WAY TO USE YOUR IRA

The number of Health Savings Accounts (HSAs) is growing now that Americans better understand their value. HSA contributions are tax-deferred, potential earnings grow tax-free and distributions taken for qualified health care expenses are tax-free.

Now, IRA owners can grow their HSAs even faster by making a one-time rollover from their IRA to an HSA.

HSA AND HDHP

You must have a high-deductible health plan (HDHP) to own an HSA. In 2018, HDHPs must have a minimum annual deductible of $1,350 for self-only coverage and $2,700 for family coverage. HDHP owners with self-only coverage may put into an HSA as much as $3,450; the limit for those with family coverage is $6,900. Add another $1,000 if you're at least age 55 by year-end 2018.

DON'T TRIP UP

You must be eligible to contribute to an HSA in order to make the rollover, and remain eligible for twelve months. If you're on Medicare, for example, you're not eligible to contribute to an HSA (although you may own one to which you previously contributed). Also, your contributions plus rollover can't exceed the amount of your annual allowable contribution. That's $7,900 for a 55-year-old with family coverage.

TWO-WAY BENEFIT

An HSA benefits retirees because money can continue to grow without RMDs. You can also take HSA withdrawals for any reason after age 65 and owe just income tax on the amount.

Q&A

Q **My employee asked me for a Hurricane Harvey 401(k) loan from my plan. Is there such a thing?**

A Yes, participants in eligible 401(k) plans, 403(b) tax-sheltered annuities and 457(b) deferred-compensation plans may take advantage of streamlined loan procedures and liberalized hardship distribution rules, according to the IRS. The six-month ban on 401(k) and 403(b) contributions that normally occurs after such distributions will not apply. Plans can make loans or hardship distributions before formally amending the plan, and they can allow distributions even for food and shelter. If a plan requires certain documentation before making a distribution, it can relax this requirement. The distribution must be made by January 31, 2018.

Q **I paid for my daughter's college tuition and off-campus housing with my 529 plan. A friend of mine said I made an illegal withdrawal. Is that true?**

A It's not illegal, but you may have exceeded allowable qualified education expenses. That's because your 529 plan pays for qualified tuition, fees, books, equipment, supplies and board. If your daughter's housing off campus is more expensive than what the college charges for room and board, you could be on the hook for income taxes and a 10% penalty on the amount that exceeds qualified expenses.

ClientLine SHORT BITS

> **AND YOU THOUGHT ONLY MILLENNIALS WERE JOB-HOPPERS?** Say hello to Baby Boomers. Individuals born from 1957 to 1964 held an average of 11.9 jobs from ages 18 to 50, according to the Department of Labor's Bureau of Labor Statistics (BLS). On average, men born during this time held 12.1 jobs and women held 11.6 jobs. Boomers held 4.5 jobs from ages 25 to 34, but just 1.7 jobs from ages 45 to 50.

> **WOMEN ARE MAKING UP MORE OF THE WORKFORCE.** In 2000, there were 66.3 million women in the labor force, or 46.5%. By 2015, 73.5 million women comprised 46.8% of the overall labor force. According to BLS projections, the number of women in the labor force will increase to 77.2 million in 2024 for a 47.2% share.

> **AMERICANS OWE A RECORD AMOUNT OF STUDENT DEBT.** The Consumer Financial Protection Bureau found that the percentage of borrowers with $20,000 or more in student debt doubled over the last decade. In response, some employers have begun offering student loan repayment benefits to employees. The study shows that in 2014, more than 40% of student loan borrowers left school owing $20,000 or more.

> **DON'T GAMBLE ON EXCLUDING GAMBLING WINNINGS.** Whether you're in the office football pool or in a casino, the IRS wants you to report all your winnings. Don't try to declare only a gambling loss, though. You can deduct losses only up to the amount of your winnings if you itemize, but at least they aren't required to exceed 2% of AGI as needed for miscellaneous itemized deductions.