ClientLine®

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MORE LAST-MINUTE TAX DEDUCTIONS

As the clock ticks down to a New Year, consider some business-smart ways to save on your 2017 tax bill.

HOME OFFICES

If home is where the heart of your business is, you have two options for deducting home office expenses. The first is the simplified option: a standard deduction of $5 per square foot of home space, up to 300 square feet, used exclusively for business.

The second is the regular method, which allows deductions for a variety of substantiated expenses such as depreciation, mortgage interest, rent, insurance and utilities.This requires calculating the percentage of your home space used exclusively for business.

INSURANCE PREMIUMS

You may also be eligible to take a small business health care tax credit if you are a qualified small business. You qualify if you have fewer than 25 full-time equivalent (FTE) employees, your average employee salary is about $50,000 per year or less, you pay at least 50% of your full-time employees' premium costs and you offer coverage through the SHOP Marketplace.

LEARN AND SAVE

Seminars and other educational costs, as well as convention fees, may be deductible, as well as business travel, entertainment and meals.

GROW AND SAVE

Did you budget for new employees next year in anticipation of business growth? If you did, why not start looking for them now? Recruiting expenses, including advertising and marketing, may be tax-deductible.

PAY AND SAVE

If you have employees, your business bears the cost of paying not only their salaries or hourly wages, but also related employment taxes. Don't forget to list these and other related expenses, such as hiring freelancers or independent contractors, when gathering your tax records for 2017.

DON'T FORGET!

Check out the December ***ClientLine*** for five more small business tax deductions, and talk to a tax professional for more information.

What Constitutes a Small Business

If you own a "small" business, it may be pretty big according to the Small Business Administration. The government agency recently shuffled the North American Industry Classification System (NAICS) definition of industries, increasing size standards for six industries and decreasing them for two.

Depends on Industry

Size standards are generally defined by maximum average annual receipts or average number of employees. For instance, a graphic design services firm is "small" if average annual receipts are less than $7.5 million, while a computer systems design services firm qualifies as small with a $27.5 million limit.

Small information technology value-added resellers may have up to 150 employees, while most life sciences research firms can have up to 1,000 employees and qualify as a small business.

Small = Opportunity

Why does size matter? Those firms qualifying as small businesses are eligible for federal government grants, loans and contracts. For more information, check out www.sba.gov.

WHEN YOU WANT TO CONTRIBUTE MORE

While small business owners and sole proprietors typically zero in on how to reduce their tax liabilities at year-end, it's easy to overlook tax-advantaged vehicles that can serve a dual purpose.

A Simplified Employee Pension (SEP) plan is one such way to both reduce taxes and build your retirement portfolio. Depending on your business, you could build a sizable nest egg.

HIGH LIMITS

In tax year 2017, employer contributions are based on the first $270,000 of compensation. Every eligible employee must receive the same percentage of compensation up to certain limits. Those limits are the smaller of $54,000 or 25% of compensation.

You don't have to contribute to the plan every year. But when you do, everyone who qualifies must receive contributions, which immediately vest to employees.

PLAN RULES

If you have a few employees, a SEP-IRA may work for your business. However, you may find most employees are eligible. Anyone who is at least age 21 and was an employee of your business in three of the last five years is eligible to participate in the SEP plan.

SELF-EMPLOYED INDIVIDUALS

While business owners with employees must consider the expense of contributing to those who qualify for a SEP, self-employed individuals have no such challenges. Contribution limits are the same as for businesses with employees. However, the self-employed have a separate calculation to make.

Calculate your compensation as net earnings from self-employment less one-half of your self-employment tax, less contributions made to the SEP-IRA.

WATCH OUT

Whether you have employees or not, there is a 10% tax penalty and ordinary income tax levied on most withdrawals taken before age 59½. Required minimum distribution rules also apply. Check out IRS Publication 4333, SEP Retirement Plans for Small Businesses, or consult a tax professional to learn more.

Client PROFILE ••••

Denise is nearing 65 and is confused about Medicare rules. She will continue working and receiving company health benefits. Should she still sign up for Medicare?

It depends on the size of Denise's company. If her employer has fewer than 20 employees, she should sign up for Part A and Part B when first eligible at age 65. Medicare pays before employer coverage when the business has fewer than 20 employees. Failure to enroll could result in a lifetime late enrollment penalty.

If Denise works for a company with 20 or more employees and has employer health coverage, she may be able to delay Part A and Part B without having to pay a late enrollment penalty and needn't do anything. She can apply for premium-free Part A Medicare anytime after age 65 and for Part B Medicare coverage during the eight months after employment ends.

If you have a situation similar to Denise's, talk to a health insurance specialist who understands Medicare's various rules.

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

HOW TO ATTRACT OLDER WORKERS

Choosing a benefit package that is attractive to employees of every age is often challenging, and even more so when an employer has an older workforce. Through 2024, the average annual growth rate of workers 55 years and older is expected to be more than 3 times the rate of the overall labor force.

FLEXIBILITY = IMPORTANCE

As your workforce continues to gray, consider how older workers value not only health and retirement benefits, but flexibility.

Larger organizations are increasingly allowing older workers to transition into retirement by job-sharing, working remotely and cutting their hours. Some pioneering snow birds work seasonally with one employer or in temporary jobs, as income needs dictate while they go back and forth between their northern homes and the Sunbelt.

GRAY = EXPERTISE

Other companies that know gray often equals knowledge may attract older workers with paid healthcare and long-term care, as well as generous paid time off. As the workforce continues to age, consider taking the lead by hiring older workers. They equal experience and productivity.

YOUR NEIGHBORHOOD ESTATE TAX

At press time, Congress was considering a repeal of the federal estate tax. Even if it remains, the threshold at which taxpayers begin paying taxes is relatively high at $5.49 million (in 2017). Either way, creating an estate strategy is, for most people, more about where you live than federal tax law.

ALL OVER THE MAP

Some states tie their estate tax to the federal threshold, a so-called "pick-up tax." Other states have an estate tax threshold that is separate and often lower than the federal one. Still others don't have an estate tax, but levy inheritance taxes.

TOUGH STATES FOR ESTATES

Then there are states that are in a class by themselves. New Jersey used to be the hands-down winner, with both estate and inheritance taxes. The latter will be phased out in 2018, but the state's $2 million starting point is still among the lower estate tax thresholds. A handful of states have additional thresholds at which you will pay your state, regardless of what you paid in federal estate tax.

KNOW YOUR TAX

While you might not want to move just to avoid state estate and inheritance taxes, it is a good idea to create an estate strategy now. Doing so could make life easier for loved ones when your estate is disbursed, and sound strategies can help reduce the effect of estate taxes.

Q&A

Q **I'm a healthy 30-year-old marketing executive with a good income. My advisor says I should consider buying disability income (DI) insurance. Why would I need it when my employer is covered by workers' compensation?**

A Workers' compensation insurance covers medical bills and a portion of missed income due to an injury that is work-related. The reality is that workers' compensation likely won't equal lost income, and most injuries that result in lost work time occur outside the workplace. If your employer offers group DI, consider buying it. If you believe you need added protection, talk to a licensed insurance agent about individual DI.

Q **One of my 401(k) plan's investment options is company stock. I want to maintain a diversified retirement plan portfolio, so how much is too much company stock?**

A It's admirable to want to own some of your company, but too much of any one asset type can throw off your allocation. History is littered with employees who owned too much company stock as their firms went out of existence. Thankfully, employees generally are limiting their exposure to this investment. According to the Employee Benefit Research Institute, employees held less than 7% of 401(k) assets in company stock at year-end 2015. That's down from 19% in 1999. Every retirement investor is different, but you could use the 7% figure as a benchmark.

ClientLine SHORT BITS

> MOST PEOPLE ARE TAKING ADVANTAGE OF AN IMPORTANT HEALTH SAVINGS ACCOUNT FEATURE — THE ABILITY TO ROLL OVER BALANCES. The Employee Benefit Research Institute (EBRI) found that over 90% of HSAs that saw individual or employer contributions in 2016 ended the year with a balance to roll over into 2017 for health expenses. The rollover component is one of the most attractive features of this triple-tax-free healthcare savings vehicle.

> NO SURPRISE HERE. EMPLOYER-SPONSORED HEALTH INSURANCE PREMIUMS INCREASED AGAIN IN 2017 — BUT ONLY BY 3%. The Kaiser Family Foundation/Health Research & Education Trust 2017 Employer Health Benefits Survey of employer-sponsored health plans found an average cost for family health insurance coverage of $18,764, with employees picking up $5,714 of the amount.

> GIFT TAX EXCLUSIONS PROJECTED TO INCREASE IN 2018. The annual gift tax exclusion is projected to increase to $15,000, a $1,000 hike over 2017. This means you and your spouse can give gifts up to that amount to as many people as you like, free of federal gift tax. The lifetime estate and gift tax exclusion is also projected to rise from $5.49 million to $5.6 million.

> THE NET WORTH OF U.S. HOUSEHOLDS AND NONPROFITS RISES. Our national net worth, defined as assets minus liabilities, rose by $1.7 trillion in the second quarter of 2017 to $96.2 trillion, according to the Federal Reserve. That's the good news. Not so good? Consumer credit grew at an annual rate of 4.6% for the same period. Better news? State and local government debt decreased by 1%.