Jack Burson

From: Jack Burson, CPA <JackBurson@e.mycpanewsletter.com>
Sent: Thursday, April 30, 2015 12:37 PM
To: Jack Burson
Subject: (TEST-Multipart) CPA Client Bulletin - May E-Newsletter

To ensure receipt of our emails, please add JackBurson@e.mycpanewsletter.com to your Address Book.
For instructions on how to add, please click here. Thank you!

This issue has been provided to you by **Jack Burson, CPA**

CPA

Client Bulletin

Smart Tax, Business & Planning Ideas *from your* **Trusted Business Advisor**SM

Holding Stocks in Retirement Accounts

The stock market goes up and, as we've learned, it goes down. Despite the volatility, stocks have been excellent long-term investments for many decades, and there's no reason to think that the future will be different. Regular investing in equities, through bull and bear markets, probably should be part of your strategy for building an investment portfolio you can tap in retirement.

Many people do virtually all of their investing in 401(k) and similar employer-sponsored retirement plans. They often roll those accounts into IRAs, continuing the tax deferral. If you're in that category, you'll do your stock market investing inside your retirement account; you can decide what portion to allocate to equities.

Mixing your money

On the other hand, you may have both a tax-deferred retirement account and a taxable investment account. That is, in addition to your retirement accounts, you might have one or more accounts with brokerage firms or mutual fund companies where any investment income is taxed each year. In that situation, where do your stocks belong? Individual circumstances may dictate the decision.

What's Inside
May 2015

Corporate Concern
Wellness initiatives (which may include rewards for employees who complete a health assessment) have been adopted by 51% of employers with at least 50 workers.

Jack Burson, CPA
100 N Dixieland Road,
Suite D-2 #185
Rogers, AR 72756
Telephone: 303-499-4865

Click here to contact us.

On Line Accountant

Example 1: Jim Morgan is 33 years old with no plans to retire for at least 35 years. With such a long time horizon, Jim invests mainly in equities, where he expects the greatest long-term returns. Jim invests his 401(k) contribution in the stock market and also holds stock funds in his taxable accounts.

Other investors, especially those closer to retirement, may prefer to hold a mix of stocks, bonds, and other asset classes. Investors with such a diversified portfolio as well as taxable and retirement accounts must decide where to hold their stocks.

Example 2: Barbara Owens, age 50, has a 401(k) account, a traditional IRA and a brokerage account. Her desired asset allocation is 50% in equities and 50% in fixed income. Barbara can choose among these accounts for holding her stocks.

Bigger buildup

The case for holding stocks inside a retirement account is straightforward: They have higher expected returns. Morningstar's Ibbotson subsidiary reports that large company stocks historically have returned around 10% a year for patient investors. If Barbara contributes a maximum $24,000 to her 401(k) in 2015 and puts that money into stocks that return, say, 9% per year, that contribution would grow to around $96,000 in 16 years. Invested in bonds that earn, say, 6% a year, Barbara's $24,000 contribution would grow to about $60,000 in 2031, which is when she plans to retire, roll her 401(k)into an IRA and start taking distributions.

Naturally, Barbara would rather have $96,000 in her IRA than $60,000. Keep in mind that difference is from one year's contribution. If Barbara keeps investing her 401(k) money in stocks, year after year, and stocks approach historic norms, her retirement fund would be much larger than it would be with bonds. To keep her desired asset allocation and moderate portfolio volatility, Barbara can contribute to bond funds in her taxable brokerage account.

Tax treatment

If projected returns from stocks are higher than they are from bonds, why not hold your stocks in tax-deferred territory? In a 401(k) account or an IRA, the higher returns can be compounded without an annual reduction for income tax.

However, holding stocks in a tax-deferred retirement account means giving up some key tax advantages. Under current law, stock dividends taken in a taxable account usually are taxed at only 15%; some taxpayers owe 0% on dividends, whereas a 20% tax rate applies to investors in the highest tax bracket. The same bargain tax rates apply to long-term capital gains realized in a taxable account. What's more, investors can take capital losses in taxable accounts—losses that can provide valuable tax advantages.

In a 401(k) or an IRA, taking capital losses won't provide any tax benefit. Moreover, any distributions from such retirement accounts will be taxed as ordinary income, at rates that now go up to 39.6%. (The tax rates mentioned may actually be higher, because of various tax code

Trusted Advice

Estimating business taxes

- If you are filing as a sole proprietor, partner, S corporation shareholder or a self-employed individual, use IRS Form 1040-ES, Estimated Tax for Individuals, for estimated taxes.
- High-income business owners paying estimated tax as individuals may owe a penalty if the total of withholding and timely estimated tax payments does not equal at least 90% of the current year's tax or 110% of the prior year's tax.
- C corporations should use IRS Form 1120-W, Estimated Tax for Corporations, for estimated taxes. They generally must deposit the payments via the Electronic Federal Tax Payment System. Installment payments are due by the 15th day of the 4th, 6th, 9th, and 12th months of the corporation's tax year.
- Generally, each required installment for a C corporation is 25% of the income tax that corporation will show on its return for the current year or for the prior year (provided that the prior year was a 12-month tax year and the corporation filed a tax return for the year showing a tax liability), whichever is smaller.

provisions.) What could have been bargain-taxed stock dividends and long-term gains may be transformed into fully taxed IRA distributions.

Looking ahead

Today's tax rates are meaningful, but what really will count are the tax rates in effect in the future, when you draw down your portfolio for retirement income. Perhaps you'll have a low tax rate then, without earned income, so paying ordinary income tax on IRA distributions won't be terribly painful. Alternatively, ordinary income tax rates may be much higher in the future, so the IRS' share of your stock market gains could be greater when you withdraw those profits from your IRA.

No one has a crystal ball about future personal income and tax rates. Nevertheless, you should keep the tax aspects in mind when you decide whether to hold your stocks and stock funds in a taxable or tax-deferred account. Our office can help you crunch the numbers, so you can make informed decisions. ■

Back to Top

Finding a Low-Tax State

Many people today are not tethered to a job location, so they can choose where to live. Those in this category range from retiring Baby Boomers, ready to relocate, to new graduates about to enter the work force. Others who can pick their place of residence include certain self-employed individuals and people who are employed but able to work remotely, thanks to today's technology.

If you can choose where to live, you might weigh many factors, from desirable weather to the proximity of family and friends. A low cost of living, especially when it comes to housing, also can play a role. Another key living cost will be the level of taxation you'd face in a given state.

Income taxes

When you think of taxes, income tax might be your primary concern. Some states (Alaska, Florida, Nevada, South Dakota, Texas, Washington, Wyoming) have no personal income tax, whereas Connecticut and Tennessee tax only certain amounts of investment income. At the other end of the spectrum, many counties, cities, and school districts across the nation impose an income tax, in addition to state tax. For example, it's common for New York City residents to be in a combined (city and state) income tax bracket of over 10%.

That said, you should look closely at an area's complete income tax situation before crossing it off your list. Some states offer attractive tax benefits to retirees, including full or partial tax exemptions for Social Security benefits, pensions, and distributions from tax-favored retirement accounts such as IRAs. Thanks to federal legislation, people who relocate to a different state won't owe tax to their old state on retirement plan distributions. Seniors might owe little tax, even in a supposedly high-tax state, if they have scant earned income or taxable investment income.

In addition, the state or local income tax you pay might be deductible for federal income tax purposes, reducing the effective tax rate.

Example: Walt and Vicki Taylor are in the 25% federal tax bracket. This year, they pay 8% of their $100,000 taxable income in state and local income tax, taking an $8,000 itemized deduction for those outlays. By reducing their federal taxable income by $8,000, the Taylors save $2,000 in tax (the $8,000 deduction times their 25% federal tax rate), reducing their net state and local tax cost from $8,000 to $6,000, or 6% of their income.

That's a simplified example, as the actual calculation can be complicated. If the Taylors wind up owing the alternative minimum tax (AMT), they'll get no deduction for their state and local income tax payments, so their actual cost would be 8%. The same is true if the Taylors take the standard deduction, so they don't deduct their state and local taxes. Our office can help you determine the true income tax rates of a given area.

Other taxes

Although income taxes are certainly noticeable, you shouldn't focus solely on them. In most states and cities, you'll owe other types of taxes, which you should include in your comparison.

Previously, an example showed the Taylors owing $8,000 in state and local income tax. If the Taylors are homeowners, they could pay $10,000 or more in property tax, in some areas. Moving to a state with little or no income tax might not be a good choice if the area where you plan to buy a home charges extremely high property tax. Indeed, steep property taxes that increase in the future could make a retirement home unaffordable, forcing you to sell. As is the case with income tax, you should calculate the net cost of property tax payments, after any likely federal tax deduction.

Sales taxes also should be considered. Altogether, comparing taxes from one residential location to another can be complicated. Again, our office can help you estimate your tax burden in an area you're considering for a new home. Just keep in mind that taxes are only part of the cost of living at a particular address, and the total cost of living is merely one aspect to consider when deciding where to live. ■

Back to Top

What Lower Oil Prices Mean to Your Company

As of this writing, crude oil sells for around $55 a barrel, down from over $100 in mid-2014. The last time oil prices were (briefly) this low was at the start of 2009, at the nadir of the financial crisis. Lower oil prices have driven down the cost of gasoline by nearly 30%, to around $2.50 a gallon, while home heating oil fell by more than 30% this past winter, to less than $3 a gallon.

Such changes can have a huge impact on small companies—surveys indicate that some businesses benefit by thousands of dollars a month. If your company will enjoy this type of windfall, you can decide what to do with it.

Lower costs

For many companies, the most obvious result of lower oil prices is a drop in transportation costs. Your company is paying less now for gas for any company cars; employee fuel reimbursements probably are down as well. If your company has vehicles it uses for service or deliveries, you'll also see reduced outlays for buying fuel to run them.

Companies in cold-weather areas of the U.S. may have paid less for heat this past winter, despite some frigid spells. You also may be paying lower utility bills as the heating season transitions to air conditioning months. Altogether, the steep drop in oil prices acts like a meaningful tax cut for many small businesses.

Higher revenues

Making this good news even better, lower oil prices also act like a tax cut for your customers. If you deal with consumers, the money they're not dumping into their cars' gas tanks may wind up paying for your company's products and services. For certain types of businesses, lower gas prices mean that it's more likely that you and other company representatives will drive to see clients or prospects, resulting in increased sales.

Even if you don't deal directly with consumers, lower oil prices can have a ripple effect that brings in more business. Lower costs might speed up real estate construction, for instance, which would help companies serving that industry. What's more, lower oil prices may keep inflation down, which could lead to continued low interest rates and a favorable climate for borrowing money to help your company grow.

Troubled territory

As is often the case, falling oil prices produce losers as well as winners. If your customer list includes energy companies, you stand to lose business as those firms reduce capital spending, lay off workers, and so on. The same can be true if you have a local business serving an area that has prospered in the recent American oil drilling boom.

Nevertheless, most small companies stand to come out ahead from lower oil prices. The extra profits might go to bolster your balance sheet, if it's still feeling the effects of the 2008–2009 downturn. Other uses of increased cash flow might include business expansion, improving customer service, paying bonuses to current employees to boost morale, and hiring more workers.

Will oil prices stay down or will they bounce back into triple digits? No one can say, just as few seers predicted the recent retreat in dollars per barrel. Apparently, worldwide slackening of economic growth along with increased oil supplies may hold prices down for a while. In any case, the possibility of relatively inexpensive oil should be in your company's current business plan, as well as ideas about what to do with any plumper profits.

Moreover, if you are expecting an increase in profitability because of lower oil prices (or for any other reason), you should review your estimated tax strategy to make sure you avoid underpayment penalties. ■

Back to Top

TAX CALENDAR

MAY 2015

May 11

Employers. For Social Security, Medicare, and withheld income tax, file Form 941 for the first quarter of 2015. This due date applies only if you deposited the tax for the quarter in full and on time.

May 15

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in April if the monthly rule applies.

JUNE 2015

June 15

Individuals. If you are not paying your 2015 income tax through withholding (or will not pay enough tax during the year that way), pay the second installment of your 2015 estimated tax.

If you are a U.S. citizen or resident alien living and working (or on military duty) outside the United States and Puerto Rico, file Form 1040 and pay any tax, interest, and penalties due for 2014. If you want additional time to file your return, file Form 4868 to obtain four additional months to file. Then, file Form 1040 by October 15.

Corporations. Deposit the second installment of estimated tax for 2015.

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in May if the monthly rule applies.

888.777.7077 • taxinfo@aicpa.org

This *CPA Client Bulletin* has been provided as a complimentary service of your CPA. If you have any questions or would like to stop receiving this newsletter, please contact **Jack Burson, CPA** directly.