SUMMER 2016

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FINANCIAL IDEAS FOR TODAY AND TOMORROW

Footnotes

Is an IRS Audit in Your Future?

Are you in the crosshairs of the IRS? According to recent statistics, your chances of being audited by the IRS are less than 1%. Sound like a nonevent to you? Don't be lured into a false sense of security. The statistic is a blended rate covering many types of incomes and taxpayers. Here are some of the reasons returns were audited.

No adjusted gross income (AGI). For AGI of zero, audit risk jumped to over 5%. The IRS benchmarks AGI because it is total income including losses from businesses and investments.

Large AGI. Audit risk was nearly 2% for returns with AGI over $200,000. Audit risk climbed to 16% when AGI was $10 million or more.

International returns. Due to a focus on offshore tax evasion, the audit rate of international returns was almost 5%.

Estate taxes. Approximately 8.5% of estate returns were audited. Gross estates of $10 million or more were tagged with a 27% audit risk.

Corporation tax. Small corporations experienced up to a 2% audit risk. The risk for large corporations with assets over $20 billion was 85%.

The Need for Good Records

Be aware that even if you don't fit into any of these categories, your return may still be selected for audit. That's one reason it's essential to keep good records to support all deductions and credits you claim on your tax return for at least three years after filing. Examples of required recordkeeping include:

- When you deduct expenses for meals and entertainment, the written evidence must show who was in attendance and what business was discussed.
- A home office deduction must have evidence showing your home office is used regularly and exclusively as the principal place of business.
- Certain nonbusiness property that you gift, donate or intend to pass through your estate requires an appraisal.

Contact us for more information about tax audit issues.

Kristi Wick, CPA, directs the accounting, auditing, income tax and consulting services of the firm's Belmond and Clear Lake offices.

FROM THE PEN OF A PARTNER

Learn How To Manage Your Retirement Accounts

How can you achieve a comfortable retirement? The steps are deceptively simple.

Start a retirement savings program as early as possible and contribute regularly. This step is simple but vital. The longer and more regularly you contribute, the larger your nest egg will become – even before the compounding provided by growth and earnings. Regular, reasonable deposits wisely invested will easily outgrow sporadic and insignificant contributions.

Deposit your funds in tax-deferred accounts. Invest in tax-deferred accounts to the greatest extent possible. If your employer or business offers a tax-deferred plan, such as a 401(k), contribute as much as you can, particularly if the plan provides matching funds. Investigate individual options, such as IRAs, for additional planning opportunities. Why? One of the advantages of tax-deferred accounts is that investments that aren't reduced by taxes will grow and compound at a faster rate. Other advantages include the ability to control your withdrawal rate and the amount of any accompanying tax, and the opportunity to postpone recognition of taxable income until retirement, when you'll likely pay tax at a lower rate.

Establish a portfolio balance suited to your age and personality. As funds within your retirement accounts accumulate, you'll have to decide how to invest them. Establish an investment plan as early as possible then follow your plan consistently, revising only enough to keep matters on course, correct for deviations and respond to unexpected events.

Track your portfolio and re-balance as needed. Maintain a balance among growth, income and short-term investments, and adjust the ratios as you age. The standard rules of thumb: When you're under 40, you can choose to invest more heavily in moderately aggressive growth vehicles. In your 40's and 50's, you might want to become more conservative, shifting your balance toward income-generating investments such as high-dividend stocks and fixed income securities.

Once you're retired, plan your withdrawals so your funds will last the rest of your life. To avoid running out of funds, plan for a long retirement. Postpone withdrawals as long as possible, and pay them out carefully. Calculate a workable percentage to withdraw from your portfolio on an annual basis. Assume your funds will need to last at least 30 years. Continue to revisit your investments each year to monitor and rebalance as needed.

A satisfactory retirement program requires planning, discipline and monitoring. Wherever you are in the process, we're happy to help. Contact us for advice.

Get Familiar With These Retirement Plan Definitions

Tax-deferred retirement plans – those government-sanctioned programs enabling you to accelerate your retirement savings by postponing income taxes on funds contributed to and/or earned within the plan – have a language all their own. Here are some common plan definitions.

STANDARD IRAs are available to individuals. You can deduct your contributions, and earnings in your accounts are exempt. Federal income tax applies when funds are withdrawn. Contributions are limited to the smaller of taxable compensation or an annual ceiling ($5,500 for 2016). If you're a high-earner already covered by a retirement plan, you can make nondeductible contributions.

ROTH IRAs are subject to the same contribution limits as standard IRAs, though income limitations may apply. Your contributions aren't deductible, but earnings within the account are ex-

Final DOL Overtime Rule Released

On May 18, 2016 the Department of Labor (DOL) released a final rule that increases the thresholds for overtime rules, expanding the number of employees eligible for overtime pay. Under the FLSA, employees who work more than 40 hours in a week are entitled to overtime pay, unless they meet the requirements of certain wage and duties tests. The new rule doubles the minimum salary threshold from $455 per week to $913 per week (which amounts to $23,660 annually to $47,476 annually) and raises the exemption level for those considered to be "highly compensated employees" from $100,000 to $134,004 annual salary. Hogan - Hansen understands that the DOL rule may impact major business decisions like hiring, expansion, offering new benefits or more flexible work arrangements for employees and possibly even require reductions at your company. We can help you in assessing the effects of the new overtime-pay rule. Companies will have until December 1, 2016 to make determinations on which employees to reclassify as nonexempt and implement the changes. We have the expertise to guide you through this change and help you plan for the future.

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empt from federal income tax. Withdrawals are tax-free subject to certain requirements.

SEP-IRAs are established by your employer, who sets up a traditional IRA for you and contributes up to 25% of your pay. Only your employer can contribute and annual contributions can vary.

SIMPLE IRAs are available to smaller businesses with no other retirement program. Your employer must make a specified matching contribution or a 2% contribution for each eligible employee. You may elect to contribute.

401(k) PLANS are employer-provided retirement plans. If your employer offers a 401(k), you may be able to make pre-tax elective contributions through payroll deductions. Your employer may contribute on your behalf and/or make matching contributions based on your elected deferrals. Contributions and earnings are not taxed until withdrawn from the plan.

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NOTABLE QUOTES

Twenty years from now you will be more disappointed by the things that you didn't do than by the ones you did do. So throw off the bowlines. Sail away from the safe harbor. Catch the trade winds in your sails.
Explore. Dream. Discover.

- MARK TWAIN

You don't choose your family. They are God's gift to you, as you are to them.

- DESMOND TUTU

Live everyday as if it were your last because someday you're going to be right.

- MUHAMMAD ALI

Nothing can dim the light which shines from within.

- MAYA ANGELOU

Happiness is like a butterfly which, when pursued, is always beyond our grasp, but, if you will sit down quietly, may alight upon you.

- NATHANIEL HAWTHORNE

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