ROBERT SHANNON, FOUNDER OF SHANNON & ASSOCIATES, PASSES AWAY AT THE AGE OF 94

It is with deep sorrow that we must announce the passing of one of the founding owners of Shannon & Associates, LLP. Bob Shannon peacefully passed away on April 24, 2014, at the age of 94.

Robert Eugene Shannon was born in Aberdeen, WA on January 27, 1920. He graduated from Aberdeen High School in 1937, winning state championships in both tennis and swimming. He enrolled at the University of Washington in 1940. But in 1941, World War II interrupted his studies. Bob joined the Navy and by 1942 he had earned his wings. He served in active duty as a pilot, instructor and Commanding Officer of Squadron VF891. He remained in the Naval Reserve for 20 years and achieved the rank of Commander. Later, he returned to the University of Washington, graduating in 1947, and became an Associate Lecturer. During this time he was building Shannon & Associates, a Puget Sound's Top 25 CPA firm. Bob also co-owned Kent Licensing Agency, an auto licensing subagent for the WA State Department of Licensing, and co-founded and served as President Emeritus of the WA Association of Vehicle Subagents.

Bob Shannon's integrity, hard work and amiable manner have contributed to a lifetime of loyal clients for Shannon & Associates. The harmonica-playing CPA was known far and wide for his service to clients and love of music. He worked endless hours to solve his client's accounting problems. He was always willing to accommodate people, if someone came to him with a problem, he would do whatever it took to solve it for them.

Dedicated to serving the City of Kent, Bob was a member (and past president) of Kent Kiwanis for over 50 years, co-founder (and past president) of Meridian Valley Country Club, and an active member of St. James Episcopal Church. The City of Kent honored him by naming January 27th "Robert E. Shannon Day."

Bob enjoyed playing the piano and harmonica, and his hobbies included racquetball and swimming. He kept in contact with his war buddies through active participation in the First Friday Club of Retired Navy Pilots, the Tailhook Association, and planning Squadron reunions with his wife, Dorothy, always including both pilots and spouses.

He was a loving family man and is a great loss to those left here and a significant gain to those in Heaven. He will be dearly missed, but we are grateful he is no longer in pain and now at peace. In lieu of flowers, donations to the American Red Cross would be appreciated.

IN THIS ISSUE

Let us help with your ERP software and IT needs!

Accounting software needs - analysis, selection, implementation, training and support

Manufacturing and distribution solutions

Third-party software integration

Creating meaningful management reports using Crystal Reports or FrX

Assessing your IT controls and practices

Reviewing your internal processes and controls for efficiency as well as fraud prevention practices

Shannon & Associates is proud to be an independent member of Nexia International, a worldwide network of independent auditors, business advisors and consultants. Nexia International is the 10th largest network of accounting firms in the world, with member firms in over 100 countries. This global representation with Nexia enables us to offer our expertise in international taxes and accounting around the world and provide top quality service to our clients with foreign and domestic financial needs.

2014 SOCIAL SECURITY WAGE BASE INCREASES

The Social Security Administration (SSA) announced that the taxable wage base is increasing from $113,700 to $117,000 in 2014. The new limit raises the level of income subject to the 6.2% Social Security tax. According to the SSA, about 10 million of the estimated 165 million workers who pay Social Security taxes will be affected by the change.

Background

Under the Federal Insurance Contributions Act (FICA), employers, employees, and self-employed workers pay two taxes on wage and self-employment income. One is the 6.2% tax for Old Age, Survivors and Disability Insurance (OASDI, otherwise known as the "Social Security tax"), and the other is the 1.45% Medicare tax. Taken together, the two taxes add up to 7.65% of wages or self-employment income.

For wage earners, the employer pays 7.65% of wages earned, and the employee pays an equal amount. Those who are self-employed pay both the employer and employee portions, though the rules allow for certain adjustments to be made.

The Social Security Tax

The amount to which the Social Security portion of the FICA tax applies is capped at a certain specified level, or "wage base." The wage base is adjusted annually to keep pace with overall wage increases. Under the new announcement, the Social Security tax will no longer apply once the taxpayer exceeds $117,000 in wages or self-employment income in 2014. As a result, even if the worker were to earn more than $117,000 in 2014, the amount of the obligation for the employer and the employee would be limited to $7,254 (each).

The Medicare Tax

Unlike the Social Security tax, the 1.45% Medicare tax has no taxable maximum, so the $117,000 cap will not apply to that portion of the tax.

In fact, the 1.45% Medicare tax rate increases by 0.9% when wages exceed certain levels — $250,000 for joint returns and $200,000 for unmarried filers. However, this 0.9% increase is on the employee side only. The employer is only responsible for the 1.45% employer portion of the tax.

GET CONNECTED!

Shannon & Associates | SHANNONCPAS | Shannon & Associates

IRS REDUCES STANDARD MILEAGE RATES

The IRS has announced a one-half cent decrease in the standard mileage rates that taxpayers will use for calculating business, medical, and moving expenses in 2014. Use of the standard mileage rate is a popular alternative to using the actual expense method, which requires taxpayers to keep track of specific costs for gas, maintenance, repairs, tires, oil, insurance, etc.

Business Expense

According to the IRS, the standard mileage rate for use in calculating 2014 business travel expenses is 56¢, down from 56.5¢ in 2013. The new rate also applies where the employer maintains an "accountable" plan for reimbursing employees who use their own automobiles for business-related travel. Additionally, if an employee is provided with a company-owned vehicle for personal use, the employer may use the standard mileage rate to value the benefit.

Medical Travel

The IRS also announced that the .5¢ reduction applies to the mileage rate applicable to medical travel. The new rate is 23.5¢. Costs of medical travel are deductible on Schedule A of Form 1040 where the taxpayer has had to travel for medical treatment.

Moving Expenses

The .5¢ reduction also applies to mileage claimed as moving expenses, decreasing this rate to 23.5¢. Allowable moving expenses may be taken as an "above-the-line" adjustment where the taxpayer has to move for a job that is at least fifty miles farther from his or her prior residence than the prior employment.

Charitable Work

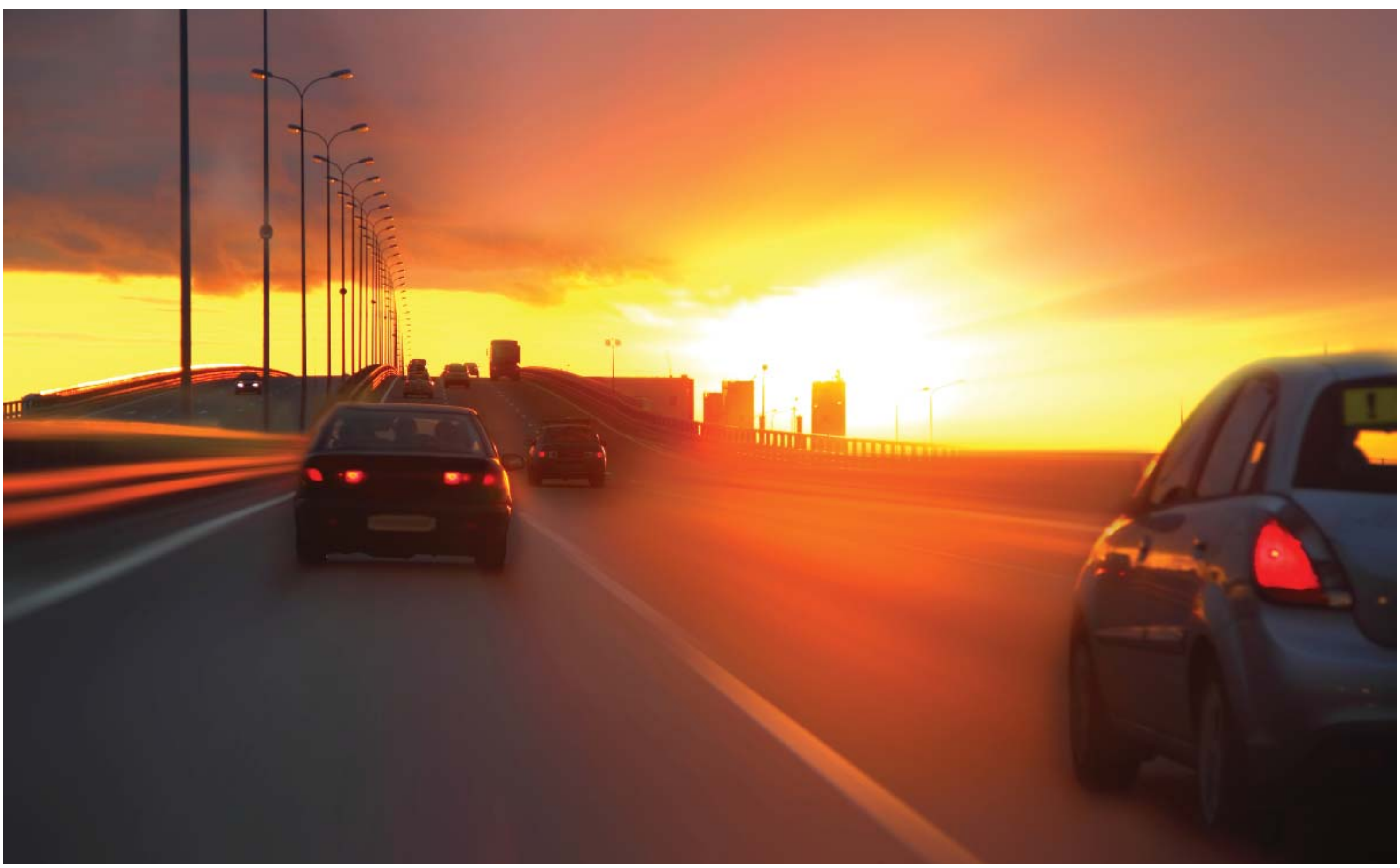
The new .5¢ reduction will not apply to the 14¢ per mile rate allowed for any travel related to charitable work. This rate is set by statute and is not inflation-adjusted.

Generally, the IRS adjusts the standard mileage rate annually, though it sometimes makes a mid-year adjustment when gasoline prices have changed significantly.

Summary

The new standard mileage rate is in effect for all business, medical, and moving expenses incurred in 2014. If you have any questions about how the standard mileage rates apply in particular (or deducting travel expenses in general), let us know.

Thank you for your referrals!
We appreciate the confidence you have in our services to recommend us to other individuals and businesses.



WHITE HOUSE EXTENDS TWO KEY REQUIREMENTS OF THE HEALTH CARE ACT

The Obama Administration has delayed implementation of two essential provisions of the Affordable Care Act (ACA) — extending the phase-in period for employer "shared responsibility" obligations and allowing insurers to renew non-qualifying health care policies for an additional two-year period.

Background

The ACA requires that any employer with an average of 50 full-time employees (including full-time equivalents, or "FTEs") must offer its employees qualifying health care coverage. Qualifying coverage must be both "affordable" and provide "minimum value" — as those terms are defined by the law and regulations. Failure to offer qualifying coverage may result in penalties of up to $3,000 a year per employee (though limits may apply.) Collectively, these requirements are known as the "employer shared responsibility" obligations.

Extension for Employers

Initially, the effective date of the ACA was January 1, 2014, but in July 2013, the administration delayed implementation of the "employer shared responsibility" obligations for one year. Recently-issued regulations push back the scheduled phase-in even further. The schedule that applies to your business will depend on the number of its full-time employees. Generally, firms with 50-99 employees will have reporting requirements for 2015 but no "shared responsibility" obligations until 2016. For firms with 100 or more full-time employees, "shared responsibility" obligations will begin one year earlier — in 2015. However, an employer may avoid the penalties by offering qualified coverage to 70% of its employees in 2015 and to 95% in 2016.

Renewal of Non-qualifying Policies

On March 5, 2014, the Department of Health and Human Services (HHS) announced that health insurance companies may renew non-qualifying policies (and affected individuals and eligible businesses may choose to re-enroll in such coverage) for an additional two-year period.

HHS had previously announced an extension on November 14, 2013, stating at that time that health insurers could renew non-qualifying policies through October 1, 2014. This most recent announcement extends that period to October 1, 2016.

According to the announcement, issuers may renew policies even if they had previously notified the policyholder that the current policy was being cancelled and even if the policy fell short of meeting essential ACA requirements, such as those relating to the cost of premiums and guaranteed renewability.

Before the insurer may issue such renewals, several conditions must be met. One is that the state in which the insurer operates must allow such renewals. Additionally, issuers must provide policyholders with specific notices (models are provided by HHS) informing them that (1) their renewed policy may not provide all the protections of the ACA, (2) the policyholder has the option of seeking a different policy through the Health Insurance Marketplace, and (3) additional information may be obtained at Healthcare.gov or a toll-free phone number.

Contact us for help answering your questions about the application of the new ACA rules to your business.

JUGGLING APPRECIATED ASSETS AND BEQUESTS

During your lifetime, donating appreciated assets to charity can make sense. As long as you have held those assets for more than one year, you'll get a deduction for the assets' current value. The paper gain will avoid income tax.

Example 1: Ava Brown wants to donate $10,000 to her favorite charity this year. Instead of writing a check, Ava donates $10,000 of stock that she bought years ago for $4,000. Ava receives a $10,000 tax deduction for the donation and the $6,000 gain is never taxed.

At the same time, Ava leaves her traditional IRA untouched, for ongoing tax deferral.

Reversing course

When Ava prepares her estate plan, she decides to switch tactics. Ava intends to make a much larger bequest to her favorite charity, but she will not use appreciated assets for this donation from her estate. Instead, she will make this large bequest from her traditional IRA.

Why the change? Consider the following scenario, which would have been the case without a switch.

Example 2: At Ava's death, her only assets are a $100,000 traditional IRA and $100,000 in appreciated stocks. She leaves her traditional IRA to her son Brad and her $100,000 of appreciated assets to charity.

After Brad inherits the traditional IRA, he will have to pay income tax on all distributions from that IRA. If his effective income tax rate is 40%, Brad's net inheritance will be only $60,000 (60% of $100,000) after tax.

Instead, Ava could make the switch mentioned previously, leaving her $100,000 traditional IRA to charity and the $100,000 of appreciated assets to Brad. The tax-exempt charity would not be affected because it can withdraw all the money from Ava's IRA and not owe any income tax.

Brad, on the other hand, would be much better off inheriting the appreciated assets. Under current law, those assets would get a basis step-up to fair market value on the date of Ava's death. Brad could sell those assets for $100,000 and owe no tax.

Return to reality

Of course, it's unlikely that Ava will die with only those two assets of equal value. Nevertheless, the principle generally applies to estate planning. When your traditional IRA passes to a taxpaying beneficiary, you are leaving an income tax obligation as well as that IRA. It is better to make charitable bequests from the IRA because a charity won't pay the deferred income tax.

Meanwhile, you should consider holding onto appreciated assets (and other low basis assets, such as depreciated property) until your death, if that's practical. Your heirs will get a basis step-up, so capital gains tax can be avoided.

Other considerations

In Washington State, some types of community property receive a step up to 100% of the property value at the first spouse's death; this can be a planning opportunity.

If your estate is going to be over the $2,000,000 Washington State maximum, estate planning can be very important. Don't wait to make plans and organize your estate. Please contact us if you have any questions or for an initial consultation meeting to review your estate and your estate goals and objectives.

Did You Know?

Baby Boomers are starting to receive an estimated $8.4 trillion in inheritances from older generations.

Roughly two-thirds of Boomer households (including individuals born from 1946 to 1964) are expected to receive an inheritance.

The average value of those inheritances is projected at just under $300,000 per household while the median is almost $64,000.

Source: Center for Retirement Research at Boston College

LEARNING ABOUT MUTUAL FUND SHARE CLASSES

Although some mutual funds are "no load," meaning that there is no sales charge, others are load funds, with some type of sales charge. Many load funds have multiple share classes, with various compensation arrangements. If you're buying a fund that has more than one share class, you should know which is best for your style of investing.

Up-front fee

In general, mutual fund "A" shares have a front-end load that's deducted from your initial investment.

Example 1: Wayne Vaughn invests $20,000 in Mutual Fund XYZ, which offers several share classes. This fund's A shares have a 5% sales commission, which Wayne pays immediately. Therefore, the initial charge is $1,000 (5% of $20,000), and Wayne has $19,000 of XYZ shares in his account.

Obviously, starting with a lower account value will hinder your returns. On the other hand, A shares usually have no charge when they're sold, so shareholders have more flexibility in their investment strategy. In addition, 12b-1 fees, which are ongoing charges for distribution and other services, tend to be relatively low for A shares.

In our example, Wayne intends to hold onto XYZ for many years. He is willing to pay an initial charge in order to have no further sales charges and reasonable recurring costs.

Pay later, not sooner

Investors who prefer to invest $20,000 to buy $20,000 worth of mutual funds might select B shares. These shares impose other charges, though.

- **Redemption fee.** B shares usually have a contingent deferred sales charge (CDSC), which investors pay if they sell within a certain period of time.

Example 2: Terri Smith does not want to pay up-front fees, so she buys B shares of fund XYZ. The fund will impose a 5% CDSC if Terri sells within 1 year. Over time, the CDSC will decline gradually to 4%, 3%, etc. After 6 years, the CDSC will disappear.

- **Higher 12b-1 fees.** B shares may charge the maximum 12b-1 fee of 1% per year. In our example, Terri will pay that fee for 6 years. At that point, when the CDSC no longer applies, Terri's B shares will become A shares, with an annual 12b-1 fee of only 0.25% a year.

Short-term solution

Yet another option is to buy C shares. Not only will you have all your money working for you at the start, you'll soon be free of redemption fees.

Example 3: Stan Roberts puts his money into the C shares of fund XYZ. He accepts a 1% CDSC that will disappear after one year. Stan realizes that C shares charge a maximum 1% 12b-1 fee, year after year, but he doesn't expect to hold fund XYZ for very long. Stan believes that if he sells the fund after holding for a year or two, he will have paid less in fees than he would have paid with A or B shares.

Our office can help you determine which share class of a chosen mutual fund will be best suited for your investment goals.

Trusted Advice

Loading Up

- To figure the gain or loss on a sale of mutual fund shares held in a taxable account, you must know the cost basis of those shares.
- If there were no sales charges, the cost basis is your purchase price.
- If you paid fees or commissions at the time of purchase, they are included in your basis.
- Say you purchased 100 shares of a fund at $9.50 per share and paid an up-front sales charge of 5%, or $50 on a $1,000 outlay. The total cost would be $1,000, and the cost basis for each share would be $10.

SHANNON & ASSOCIATES, LLP
Certified Public Accountants & Management Consultants
1851 Central Place South, Suite 225 Kent, WA 98030 | 253-852-8500
Info@Shannon-CPAs.com | www.Shannon-CPAs.com