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2015 SOCIAL SECURITY INCREASES TO TAXABLE WAGE BASE AND BENEFITS

The Social Security Administration (SSA) recently announced that the taxable wage base for purposes of computing the Social Security portion of the FICA payroll tax will increase to $118,500 in 2015. The SSA also announced that Social Security benefits will rise by 1.7%.

A few details

Wages are subject to a 6.2% Social Security tax. The tax is payable by both the employee and the employer, making the total tax rate 12.4%.

The amount of earnings subject to the Social Security tax for the year is limited to a taxable wage base. The $118,500 wage base for 2015 is $1,500 higher than the 2014 wage base of $117,000, a 1.28% increase.

The following example illustrates how the taxable wage base is applied.

Example: In 2015, John makes $100,000 and Mark makes $125,000. John will pay $6,200 of Social Security tax (6.2%) on his wages, and his employer will pay an additional $6,200, for a total of $12,400. Mark will pay 6.2% on $118,500 of his wages ($7,347), and his employer will pay an equivalent amount, for a total of $14,694. The remaining $6,500 of Mark's wages will not be subject to the Social Security tax.

For 2015, self-employed individuals will pay 12.4% on the first $118,500 of their self-employment income, for a maximum Social Security tax of $14,694.

Medicare tax

Employees and their employers are also obligated to pay a 1.45% Hospital Insurance (Medicare) tax. There is no ceiling on the amount of wages subject to the 1.45% Medicare tax. Returning to the example, Mark will pay a Medicare tax of $1,812.50, or 1.45% of his full $125,000 in earnings, and his employer will pay an equivalent amount. The rate for self-employed individuals is 2.9% (double the 1.45% rate).

High earners must pay an additional Medicare tax of 0.9% on wages exceeding a threshold amount — $200,000 for individuals, $250,000 for joint filers, and $125,000 for married persons filing separately. However, this increase is paid by the employee only, with the employer having no further Medicare tax obligation beyond the base rate of 1.45%. For self-employed individuals, the additional Medicare tax rate is 0.9% on earnings over the threshold.

Benefits

The 1.7% cost-of-living adjustment (COLA) for Social Security and Supplemental Security Income (SSI) beneficiaries is only slightly higher than 2014's 1.5% increase. According to the SSA, the maximum monthly Social Security benefit for a worker retiring at full retirement age in 2015 will be $2,663. The average monthly Social Security retirement benefit payable in January 2015 is expected to be $1,328.

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TAX-FREE ROTH IRA CONVERSIONS

Moving money from a tax deferred retirement account to a potentially tax-free Roth IRA usually will trigger income tax. That won't always be the case, though, thanks to recent IRS announcements. Some examples show how this can work.

Example 1: Nancy Martin has participated in her company's 401(k) plan for many years. She typically has made maximum pretax contributions to the plan. Nancy's company allows employees to make additional aftertax contributions (many employers do), which she has done. Nancy decides to leave the company at a time when she has $600,000 in the 401(k), including $100,000 from aftertax contributions.

Thanks to an IRS notice published in September (IRS Notice 2014-54), Nancy can have her plan administrator transfer $100,000 of aftertax money to a Roth IRA. Because this is aftertax money, Nancy won't owe tax on the transfer. Inside her Roth IRA, untaxed growth can continue.

Once Nancy has met the five year and age 59½ requirements, she can withdraw as much or as little from the Roth IRA as she wishes without owing any tax.

In order to qualify for this tax treatment, Nancy's Roth IRA transfer must be part of a distribution to two or more retirement accounts. Thus, she can send $100,000 to a Roth IRA and the other $500,000 to a traditional IRA. Nancy won't owe any tax on these transfers. However, her $500,000 traditional IRA (and any future earnings) will remain pretax. Nancy will owe tax on any withdrawals from that traditional IRA or any future conversion to a Roth IRA.

Beyond 401(k)s, this strategy can be executed by taxpayers with aftertax money in other types of employer-sponsored qualified plans.

IRA implications

What if Nancy already had rolled her $600,000 to a traditional IRA? In that case, any distributions from that account—including those for a Roth IRA conversion—would be considered a mix of aftertax and pretax money. If Nancy had $600,000 in a traditional IRA, with $100,000 of aftertax money, for instance, a $150,000 Roth IRA conversion would be considered $125,000 (5/6) taxable and $25,000 (1/6) untaxed.

Nevertheless, there can be a way to execute a tax-free Roth conversion in that situation.

Example 2: Assume that Nancy leaves the company and rolls her $600,000 401(k) balance to a traditional IRA. Currently, that IRA has the same balance, including $100,000 of aftertax money. Nancy has just accepted a new job with a company that sponsors a 401(k) plan for its employees.

In this situation, Nancy can roll her $500,000 of pretax money into the new company's 401(k) plan and then convert the aftertax $100,000 to a Roth IRA. Again, she'll owe no tax on either move and she'll have $100,000 in a potentially tax-free Roth IRA.

That tactic has been possible in the past but not always practical: many employer plan administrators were reluctant to accept such rollovers from IRAs into a company retirement plan because the IRS had not explained how such transactions should be handled.

That changed last year when the IRS published Revenue Ruling 2014-9, setting out the ground rules. Now, Nancy can have the custodian of her traditional IRA transfer up to $500,000 of her pretax money to the new company's plan. Nancy also has to submit a statement to the administrator of the new plan, certifying that this rollover is all pretax money. Following Rev. Rul. 2014-9, company plans are likely to accept such rollovers from traditional IRAs.

THE EMPLOYER MANDATE BEGINS JANUARY 1, 2015

by David Volkert, Senior Accountant

While the majority of the provisions of the Affordable Care Act (ACA) have been in place since 2010, the effective date of the mandate provisions have been delayed until 1/1/2015. As most of us are aware, the law is lengthy. However, the bright spot for most employers is that many of the most complicated provisions simply do not apply to them. The law targets large employers and, furthermore, much of the law deals with specific employment situations which are just generally not found in small businesses, even those considered large by the ACA.

2015 marks the first year where there will be reporting requirements regarding ACA compliant healthcare plans. The reporting requirements are still in their draft form and they are not due until January 2016 so we won't be discussing them here. If you prepare your own payroll, you should expect some additional work to go with your W-2 preparation for 2015 wages.

The following is a general discussion of basic rules of the ACA and the mandate penalties. This is in no way a complete summary of the law, however, it should provide valuable background.

What requirements does the ACA place on employers?

It gets tricky since it brings up a lot of terms that require definitions but the general idea is simple:

- Large employers are required to offer substantially all full-time employees, and their dependents, the opportunity to enroll in a employer-sponsored health plan that is affordable and a minimum amount of coverage laid out in the ACA.
- If they don't, they risk being charged a "shared responsibility payment".

Like most things tax related that can be summed up in a few sentences, we need to unpack a few of the terms to really get an understanding of what it really means:

"Large Employers" A large employer employed 50 full-time equivalent (FTE) employees in the prior year, on an average daily basis. Note this is a full-time equivalent, not a full-time employee - so two 15-hour-a-week employees add up to one FTE. Further complicating the FTE calculation is the "controlled group" rules, but a general example would be an individual who owned 5 small Italian restaurants, each employing 10 FTEs. This would be considered a large employer as the FTEs of the entire group are 50.

"Substantially all full-time employees" "Substantially all" has been defined as 95% of all full-time employees. It should be noted that failing the 95% test by even the slightest of margins triggers 100% of the penalty.

"Affordable" The cost to the employee for single coverage cannot be more than 9.5% of their "household income." "Household income" is a tricky number to come up with for your employees so the IRS has allowed a "safe harbor" for employers to use the employees wage as the metric.

"Full-time employees" For the purposes of the ACA, full-time is considered 30 hours a week or 130 hours per month. Note that while FTEs are used in figuring out whether you are a large employer, only full-time employees must be covered.

"Shared responsibility payment" These payments have been called many things by observers since the ACA's passing, most commonly a penalty or a tax. Semantics aside, it's all the same thing but for clarity purposes, this article refers to them as penalties. The payments are similar to excise taxes and as some taxes are considered non-deductible, these shared responsibility payments are also not deductible. So it's helpful when considering the payments to think of them as penalties as the tax effect is similar.

With that background, here's a decision tree to help you determine what effect the employer mandate penalties may have on you.

First ask yourself whether you already provide ACA compliant coverage. Contact your health insurer to be sure, but if you provide medical benefits to all your employees and their cost is less than 9.5% of their wage, you probably don't have to worry about the employer penalties.

Secondly, ask yourself how many full-time employees you have. Due to the computation of the penalties detailed below, if you have less than 30 full-time employees but are still considered a large employer due to FTEs, your penalties will be $0. Whether you're a large employer

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THE EMPLOYER MANDATE BEGINS JANUARY 1, 2015

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or not makes no difference, your penalty will be $0.

If you're still going, ask yourself how many FTEs you have. The measurement period for the 50 FTEs is the prior year so as you go to prepare your 2014 W-2s, do a rough calculation of your FTEs:

- Total all employee hours.
- Identify your full time employees (those who work more than 30/120 hours per week/month) and subtract their hours from the total.
- Take the remaining hours and divide by 2080.
- Add the result, rounded down, to your number of full-time employees.
- This total is your estimated FTEs.

This rough calculation, while not the actual method for calculating FTEs, should give you a good idea of whether you might be on the line between a large employer and small employer and whether you should delve deeper into the ACA penalty rules.

Lastly, analyze what potential effect the penalties would have. There are two penalties, the no coverage penalty and the unaffordable/minimum value penalty. However, the penalty is always maxed out at the no coverage penalty even when there is coverage.

You may have heard discussions about businesses choosing to pay the penalties rather than offer ACA compliant coverage. While this is still an option, bear in mind that just like a penalty, these payments cannot be deducted so they have a negative impact on your tax situation.

No coverage penalty

The no coverage penalty, obviously, applies when you don't offer your employees coverage. The monthly penalty is computed as follows:

$2,000 x (number of full-time employees minus 30) divided by 12.

So a large employer with 40 full-time employees and 20 part time employees that offers no coverage would be assessed the following penalty on a monthly basis:

$2,000 x (40 - 30) / 12 = $1,667 per month.

Note that while FTEs are used in computing whether an employer is "large," only actual full-time employees are counted in computing the penalty. Secondly, the law allows for 30 "free" full-time employees in the computation of this penalty.

Unaffordable/minimum value penalty

The unaffordable/minimum value penalty is assessed when your plan doesn't meet the requirements for an affordable plan that offers the minimum amount of coverage.

$3,000 x (number of full-time employees who have received a subsidy) divided by 12.

So if the same employer as in the previous example offers coverage, but all 40 full-time employees go to the exchange and receive a subsidy, the following penalty would apply:

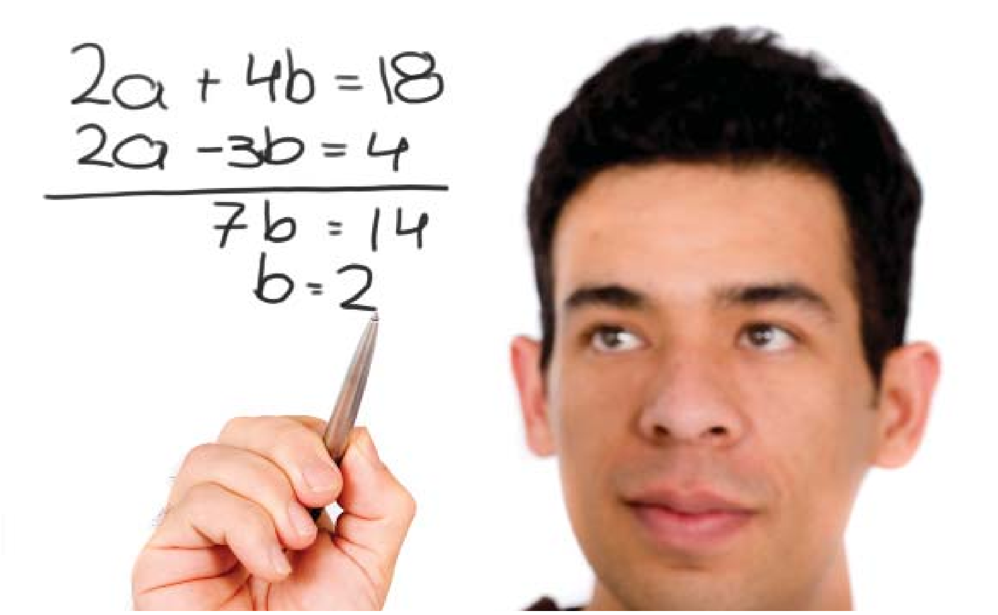
$3,000 x 40 / 12 = $10,000 per month.

However, under the no coverage penalty computation above, the penalty would be $0 per month so no penalty would be due.

Summary

For small employers, especially those with less than 30 full-time employees, they can more or less breathe a sigh of relief. There's just not much to the ACA that could penalize them based on what kind of health coverage they're providing. However, if you have less than 25 full time employees and meet other requirements, there is a tax credit you may be entitled to receive for providing medical insurance to your employees. The goal is to not penalize small employers for not providing insurance, but to offer a carrot to incentivize them to offer coverage. If you have questions about the ACA penalties or the health care credit, please contact us and we'll be happy to give you more details.

For large employers, things are definitely a bit more complicated but there are some planning tools that you can use to come up with an approach to the introduction of the employer mandate. If you have any questions, please contact us and we can help you navigate what the mandate means for your company.



NEW YEAR'S RESOLUTIONS FOR BUSINESS OWNERS

Like anyone else, business owners can begin the New Year by vowing to lose weight and revisit their insurance coverages during 2015. However, you probably should make (and implement) a separate set of resolutions to help your company prosper this year.

Here are some suggestions you can consider:

- **Turn over your paperwork.** Finish your financial statements and related supporting materials from 2014. Make hard copies of online files and store them where they'll be accessible for tax return preparation. Be sure you can locate your 2014 appointment book, in order to substantiate business meetings, and that you have recorded odometer readings of vehicles that were used for business in 2014. Then start new files for your 2015 financials, travel, entertainment, and so on.
- **Follow through on the forms**. In January, you'll need to send W-2 forms to employees, reporting their wages, as well as Form 1099 to contractors and other recipients to whom you paid over $600 last year. If you use a payroll service, follow up to make sure it has the needed information; if you use a software program to track outside payments, pick up blank 1099 forms at an office supply store for printing the documents you must send. Our office can help if you run into obstacles sending these required forms on time.
- **Execute a buy-sell agreement**. If you don't already have a formal buy-sell in place, work on getting it done in 2015. Without a buy-sell, your family may not get full value for your stake in the company in case of your death or disability.
- **Update your buy-sell**. A buy-sell often will set a price for the buyout, or a method for arriving at an acceptable amount. If you already have a buy-sell in place, check on the stated price and revise it, if necessary.
- **Hold meetings.** If you operate your business as a corporation, you may be required to hold directors' and shareholders' meetings at least annually. The beginning of the year can be an excellent time to hold such meetings, to set formal plans for 2015. At these meetings, you can update bylaws, cover buy-sell agreements, and generally take care of business. Make sure the meeting's discussions are well-documented and a record is entered into your corporate minutes. If relevant, hold your directors' meeting first, so you'll be prepared to answer questions at the shareholders' meeting. In any event, you also might want to hold a meeting for employees, to tell them your plans for the year ahead and boost their enthusiasm.
- **Review your website**. Change all 2014 references to 2015. Remove any references to year-end holidays and replace with more timely materials. Go over all the content on your site, from personnel bios to company news, to be sure everything is up to date.
- **Scrutinize your social media presence**. Savvy participation can be a key to future growth. Do you have accounts at the major networks as well as those that are gaining ground? Do your website and marketing materials reflect those connections? You might want to have young employees (or the teenage children of older ones) evaluate your efforts there and make suggestions.
- **On a related topic, does your company offer products or services that are evaluated on third-party websites?** If so, you might want to assign an employee or hire a contractor to monitor such sites and see what people are saying about your company. Any negative comments can be addressed by online responses and by in-house attention to any revealed problems.

CREATE A PERSONAL CASH FLOW STATEMENT

As the year begins, this can be an excellent time to review your financial circumstances. You can look back at 2014 and see how much money came in and where it went during the year without adjusting for seasonal variations. The knowledge you'll obtain by creating a personal cash flow statement can help you make realistic financial plans for 2015. (If you're married or cohabiting, you can use this technique to create a household financial statement.)

Tabulating income

Begin the process by adding up all the spendable cash that came in during 2014. Typically, that information can be found in the monthly statements from your checking account or accounts. If you haven't kept all the monthly statements, or if you don't feel like juggling all the papers, you probably can retrieve all of last year's statements online from your bank's website.

If you are an employee, you probably have your paychecks (after various deductions) deposited directly into such an account; if you are retired, your Social Security checks (after Medicare deductions) go there, along with any pension you're receiving. Self-employment income and investment income paid by checks also will show up as deposits, as well as transfers from investment or savings accounts.

Generally, only cash income (payments in currency) won't show up in a statement from a bank or investment account. If you do receive meaningful amounts of cash regularly, you should have some idea of the total. In fact, you'll need records in case the IRS questions how much cash you've received from working during the year.

Once you've calculated all the income you've received, make any necessary adjustments. Subtract inflows not likely to occur again in 2015, such as exceptional gifts, bequests, asset sales, and so on. Altogether, you'll have an idea of how much cash flow you can expect in 2015, raising or lowering the number to keep up with current circumstances, such as a higher salary this year.

Tracking your outlays

Your checking account statements also will show how much you've spent during the year: checks you wrote, bills you paid automatically, personal checks that you cashed for spending money. Be sure to include your debit card or ATM withdrawals in the money you spent during 2014, even if they are linked to an account other than your regular checking account.

To complete the picture of what you spent during the year, request annual statements from your credit card companies. If your credit card bills are not on autopay and you've paid less than the total balance, you may have increased your outstanding debt during the year. Credit cards usually charge double digit interest rates, and the interest you pay is not tax deductible, so paying down any balances (or converting to deductible home equity debt) probably should be a top financial priority for the year.

Focus on the future

Once you have calculated your cash flow from last year and the amount you spent, you can make certain plans for 2015.

Example 1: Steve and Sue Smith had $150,000 of cash flow last year and $130,000 of expenses. The Smiths contributed a total of $2,000 a month to their 401(k) plans in 2014, or $24,000 in all. Going over their cash flow, the Smiths see they'll be able to increase their retirement savings by $20,000 in 2015 without crimping their lifestyle. They plan to boost their 401(k) salary deferrals this year.

On the other hand, this procedure can be valuable to show you that a cutback is necessary, and where to trim.

Example 2: Jim and Joan Jackson also had $150,000 of cash flow but they spent $170,000 last year, in addition to adding to their credit card balances. Going over their cancelled checks and their annual credit card summaries, the Jacksons were surprised to learn how much they spent on dining out and online merchandise purchases. They decide to rein in all their outlays, especially in those areas, and pay down their credit card balances.

Creating a personal or household cash flow statement can start your year off with a greater grasp of your finances. In addition, this exercise is an excellent way to begin gathering the data you need to prepare for your 2014 tax return.

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