

WINTER 2015

Estate Planning: Not Just About Taxes

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As tax professionals, we often focus on the tax aspects of estate planning. However, all good planning must also take into account important non-tax considerations, such as:

- Will your assets go to whom you want them to go? This includes designations of beneficiaries in your will, revocable trust (if applicable), retirement accounts, and life insurance policies. Also relevant is how your assets are titled.
- Do you have an heir with special needs who would benefit from a special needs trust?
- Should assets going to heirs be given outright or placed in trust to provide creditor or marital dissolution protections and to take into account the beneficiaries' investment or business management capabilities? Also consider trusts for minors who may inherit.
- Are the persons you've designated as executor in your will and as trustee of your trusts still appropriate?
- Have you considered a charitable legacy?
- Have you evaluated your life insurance policies recently? Do they meet current and future needs? Should any be added, dropped, or modified?
- Do you have a power of attorney in place so someone can handle your financial affairs if you are unable to do so?
- Do you have documents in place that provide guidance or appoint someone to make decisions in the event you are unable to make your own medical decisions?
- Have you considered a revocable trust to provide elements of privacy at your death?
- Have you appointed guardians for minor children, and are the guardians still appropriate?
- If you are an owner of a business, does a sound succession plan enable the business to profitably continue when you are no longer involved?
- What will happen to your "digital" life? This could involve everything from social media presence (Facebook, LinkedIn, etc.) to access to your on-line financial and digital media accounts.

Estate planning normally is not a pleasant task. It often involves many important, not always easy, decisions. But, it is an extremely important task which deserves the best thinking of you and your advisors. Please let us know if we can be of assistance.

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Year End Tax Planning Tips 2015

As we approach the end of 2015, we bring to your attention some year-end tax-saving ideas. Before acting on these, consider the following:

- Most strategies do not apply universally, but only in specific circumstances;
- Many strategies should take into account not just the current year's impact, but future years' projected impacts as well; and
- Strategies that may reduce your current year regular federal income tax may not reduce your overall federal income tax due to the alternative minimum tax.

In light of this, here are some matters that might impact you:

Extenders. At the end of 2014, a number of tax breaks expired. Some or all of these tax provisions may be extended and, possibly, retroactively reinstated by Congress. This uncertainty makes some year-end tax planning extremely difficult. Below are a couple of the more significant "extenders":

- Special "bonus depreciation" allowance. Although the percentage allowed has varied, an additional depreciation deduction had been permitted for qualifying property in the year it was placed-in-service. In 2014, bonus depreciation was a deduction of 50% of the qualifying property's cost. With limited exceptions, bonus depreciation expired for assets placed in service after 2014.
- Section 179 depreciation deduction. In 2014, individuals and business entities could elect to deduct up to \$500,000 of qualifying business property cost in the year the property was placed-in-service. The deduction was reduced dollar-for-dollar for qualifying property cost greater than \$2,000,000. For 2015, without extension, the limitations are reduced substantially to a deduction of up to \$25,000 with a phase-out beginning at \$200,000 of qualifying property cost.

Capital gains and losses. If you have realized net capital gains during 2015, consider realizing capital losses before the end of the year to offset the gains.

Remember that net long-term losses can be used to offset net short-term capital gains which otherwise would be taxed as ordinary income.

Self-employed retirement plans. If you have self-employment income and don't have a retirement plan in place to shelter any of it, you may qualify to use a Self-Employed Plan (SEP). A SEP contribution deduction is allowed for 2015, even if the SEP is created and funded at any time up to the due date, including extensions, of the 2015 income tax return in 2016.

Charitable contributions. Consider funding charitable gifts with appreciated securities held for more than one year, resulting in gains being untaxed and deductions being allowable at the securities' market values. You may also charge charitable contributions on your credit card; contributions posted to your account before year-end are deductible this year, even if you do not pay the charges until next year.

Annual gifting. You may give your children and others up to \$14,000 each in 2015 without any gift tax consequences. This annual exclusion is a per donee amount. No carryover is allowed for the unused exclusion. Consider making year-end gifts to fully utilize this year's annual exclusion, and consider making your 2016 annual exclusion gifts (also \$14,000 per donee) early next year.

Required minimum distributions. Individuals with retirement plan accounts (employer qualified plans or IRAs) generally are required to take minimum annual distributions upon reaching age 70 ½. Steep penalties apply to noncompliance, and not all IRA custodians or plan sponsors actively communicate the applicability of the rules to account holders and plan participants.

S corporation and partnership losses. If your S corporation will generate a tax loss this year, consider whether you have enough basis in the stock (or in loans you've made to the corporation) to take the full loss. If you don't, additional investments should be considered. Similar considerations can arise in some situations with partnerships expecting tax losses.

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Are Your Business IT Systems Up to Date and Meeting Your Needs?

In many businesses, the information technology (IT) function has a reporting path that goes through the CFO or Controller. When these financial professionals have a trusting relationship with their external accountants, they often turn to their accounting firm for advice on technology issues and investments.

To meet the needs of our clients, Dean Dorton for many years has brought together some very talented technology engineers and IT consultants. That's how Dean Dorton's Technology group got its start. Our services have evolved to accommodate organizations which are quite diverse in size and type of industry.

Technology advances have created ever-changing demands and expectations from our clients. It's an e-business world we inhabit, and staying aware of and using the latest tools (at least, the proven ones) can have a material impact on business success.

Dean Dorton Technology offers a myriad of technology solutions, including:

- Full-service, managed IT support
- Cloud hosting options
- Software procurement, implementation, and training for essential programs such as Dynamics GP, Intuit, QuickBooks, Sage, and Abila MIP Fund Accounting

- Complete IT audit compliance and audit support, including SSAE 16 Service Organization Control reporting
- Network design, disaster recovery, and security/risk management
- The most up-to-date voice-over-IP (VoIP) products, combining voice, data, and video communications into a single service

Our Technology Partnership packages (management service agreements) can be modeled to fit the needs of the business. We provide an IT team, including an on-site technician and 24/7 network monitoring, ready to assist with technology challenges.

Keeping up with constant IT advancements can be overwhelming. Dean Dorton Technology's goal is to provide simple and cost-effective outsourcing and support, made possible through our strong IT resource relationships and capable IT manpower. We pride ourselves in providing quality, up-to-date technology services no matter the size or type of business of our client. Please contact me for more information about the Dean Dorton Technology group.

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Important Notice from IRS!

The IRS recently announced that beginning next year it will reject checks of \$100,000,000 or more. Apparently, IRS systems can't handle such checks. So, if you owe taxes otherwise payable by check which exceed eight digits (before the decimal point), you will need to break the total into more than one check.

You may be interested to know that the IRS reports it received 14 such checks during the tax filing season earlier this year. Now, you may be thinking one of two things: If this will apply to me, either (1) I need a new tax advisor, or (2) I'm happy to have the income or gains which caused me to owe that much!

Some Tax Rates and Amounts for 2016

FICA Base – Annual compensation to which Social Security applies remains \$118,500 for 2016.

Social Security Benefits – Individuals who are drawing Social Security benefits prior to attaining full retirement age will begin to suffer reductions in payments if they have earned income exceeding \$15,720 in 2016, unchanged from 2015.

Retirement Accounts – The maximum annual addition to a defined contribution plan is unchanged at \$53,000 for 2016. The maximum amounts that individuals can elect to contribute to employer-sponsored plans and IRAs for 2016, as shown below, also are unchanged from 2015:

Year	IRAs		SIMPLE Plans		Other Employer Plans	
	Annual Contribution	Catch-Up Contribution	Elective Deferral	Catch-Up Contribution	Elective Deferral	Catch-Up Contribution
2016	\$5,500	\$1,000	\$12,500	\$3,000	\$18,000	\$6,000

The maximum amount of compensation that can be considered as the base for retirement plan contributions remains \$265,000 for 2016.

Health Savings Accounts – The limits on contribution deductions for 2016 are \$3,350 for self-only coverage (the same as for 2015) and \$6,750 for family coverage (up from \$6,650 for 2015).

Health Flexible Spending Arrangements – The maximum voluntary employee salary reduction for employer-adopted FSAs (flexible spending arrangements) remains \$2,550 for 2016. The additional “catch-up” contribution allowable for those age 55 or older remains \$1,000.

Section 179 Deduction – The maximum Section 179 deduction for 2016 is \$25,000, the same as for 2015, subject to a dollar-for-dollar phase-out range of \$200,000 to \$225,000 of qualifying property purchases in the year. Note: Congress may act to increase the expense election amount, perhaps even retroactively for 2015.

Estate Tax – Federal estate and gift taxes apply to cumulative taxable transfers exceeding \$5,450,000 in 2016, up from \$5,430,000 in 2015.

Gift Taxes – The annual exclusion for gifts per donee remains \$14,000 for 2016.

Nanny Tax – Cash wages paid for domestic service in the employer’s home of less than \$2,000 are not subject to FICA in 2016, up from \$1,900 in 2015.



TAX QUOTE

“I wouldn't mind paying taxes – if I knew they were going to a friendly country.”

– Dick Gregory

(from a compilation by Jeffrey L. Yablon, a tax attorney with Pillsbury Winthrop Shaw Pittman LLP in Washington)

Fraud Prevention Tips

1. **Tone at the top** – Establish an ethical tone within the organization.
2. **Anti-fraud training** – Educate employees on the red flags of fraud; they will be the first ones to detect unethical behavior when it occurs.
3. **Ethics hotline** – Protect your company and employees with a method to anonymously report unethical behavior.
4. **Surprise audits** – Perform periodic testing of internal controls over key financial and accounting processes; this will enhance the perception of detection.
5. **Segregation of duties** – Segregate job duties of employees in key accounting processes such as cash receipts, cash disbursements, and inventory.
6. **System access aligned with job duties** – Access to accounting, on-line banking, and other critical systems should be aligned with employees' properly segregated job duties.
7. **Vendor approval** – Establish a policy for the approval of new vendors, including required documentation such as tax forms (W-9), contracts, and minimum insurance requirements.
8. **Fraud policy** – Establish a formal fraud policy that includes the red flags of fraud, the employees' responsibility to report fraud, the appropriate channels through which to report fraud, and the consequences of unethical behavior.

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People News

We welcome the following new team members:

Jason Amburgey, a CPA, has joined our tax team in Lexington. Jason has eight years of public accounting firm experience. He graduated with a Bachelor Degree in International Economics from Belmont University.

Carrie Asalon has joined our marketing team. Carrie holds a Bachelor Degree in Animal Science from Texas A&M University. She previously managed the marketing department at Thoroughbred Owners and Breeders Association, after working with United States Hunter Jumper Association as an Educational Programs Manager.

Bill Cox has joined our technology consulting team. Bill has five years of experience in various IT roles. He graduated with a Bachelor Degree in Accounting from Transylvania University and is a Certified Information Security Manager (CISM).

Chris Hardaway has joined our technology consulting team. He has nine years of experience in a variety of technology roles. Chris is pursuing his degree in Computer Science from Eastern Kentucky University.

Brandi Clark, a CPA with 10 years of public accounting experience, has joined our client service team and will be performing assurance and tax services. She graduated from Ferris State University in Michigan with a Bachelor Degree in Accountancy.

Lashanda Stewart has joined our tax team in Lexington. Lashanda's work experience includes 10 years with the Kentucky State Police Central Crime Lab and five years of part-time tax preparation. She earned her Master Degree in Accounting from Kaplan University and her undergraduate degree from Eastern Kentucky University.

We welcome the following team members who are starting their professional careers with us:

Brian Frick, Katie Lampton, and Mick Rebholz earned Bachelor and Master Degrees in Accounting from the University of Kentucky.

Lance Turpin earned his Bachelor and Master Degrees in Accounting from Western Kentucky University.

People News, continued

We recognize the following activities and accomplishments of our team members:

Payton Miller is serving on the KyCPA Construction Committee.

Bill Kohm was elected to the SCAPA Bluegrass Board of Directors and is serving as its Treasurer. SCAPA is a performing arts school that is part of the Fayette County Public School System.

Nick Lynch spoke on a Construction Fraud panel, moderated by **Simon Keemer**, at the Ohio Valley Construction Conference, and Nick presented on Forensic Accounting & Investigative Techniques at the KyCPA Fraud Conference.

Leigh McKee spoke on planned giving at the Association of Financial Planners' Bluegrass Chapter's Annual Conference sponsored by UK's Office of Development and at the Bluegrass Community Foundation's Professional Advisor's Seminar.

Billy Zoellers passed the VMware Certified Professional exam. VMware is a key technology used by the firm.

Adam Shewmaker moderated Health Enterprise Network's Revenue Cycle Management roundtable in Louisville.

Mike Harbold presented at the Sales and Use Tax in Kentucky Seminar in Louisville on "Identifying Tax Exemptions and Exclusions" and "Understanding State Sales and Use Tax."

Natalie Schuler and **Leigh McKee** presented "Income Tax Issues of Family Limited Partnerships" and "Substituting Low Basis Assets for High Basis Assets in Grantor Trusts" at a Wealth and Estate Planning lunch and learn.

David Richard presented at the Kentucky Nonprofit Leadership Forum on "Changes to Nonprofit Reporting are Coming."

Lance Turpin co-authored the article "The Achieving a Better Life Experience Act" in Practical Tax Strategies.

Will Booher and **Stephen Frazier**, members of our tax team, passed the Kentucky Bar Exam. Will and Stephen also are members of the bar in Georgia and Tennessee, respectively.

Brittany Neaves and **Lashanda Stewart** successfully completed the CPA exam.