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RRBB Announcements

RRBB Happenings

Brian Zucker represented RRBB at the annual SkyBridge Alternative Conference at the Bellagio Hotel in Las Vegas, May 5 to May 8. This spectacular conference featured many speakers, including Ben Bernanke, Richard Branson, T. Boone Pickens, John Paulson and Condoleezza Rice, among many other very notable industry names. Also appearing were Hall of Fame sports personalities George Brett and Joe Torre.

The SkyBridge Alternatives SALT Conference is committed to facilitating balanced discussions and debates on macro-economic trends, geopolitical events and alternative investment opportunities for the year ahead. With over 1,800 thought leaders, public policy officials, business professionals, investors and money managers from over 42 countries and 6 continents, the SALT Conference provides an unmatched opportunity for attendees to connect with global leaders and network with their industry peers.

Brian reported that there were many great talks and breakout sessions, educating the attendees on everything that affects the investment community. He also said there was a little time for fun and sun, where his "CFO Partners" suntan lotion came in handy.

Return to top

There's No Tax Place Like Home!

Reap top benefits from home-sale exclusion

Although the government has chipped away at some of the biggest tax shelters for individuals, at least one solid foundation is still standing: your home. During the period when you own a home, it can be a source of valuable tax deductions for mortgage interest and property taxes. Even better, if you sell the home at a huge profit, you may be able to pocket all or most of the gain from the sale—tax-free.

By making a special election on your tax return, you can exclude from taxable income up to $250,000 of gain—$500,000 if you're married and file a joint return—from the sale of your home. The election is made for the tax year in which the home sale occurred.

Background: To qualify for the $250,000/$500,000 home-sale tax break, the home must have been owned by you and used as your principal residence at least two of the five years prior to the sale. (Certain individuals who are moving to a nursing home may have to meet this requirement for only one out of the past five years.) This special tax exclusion doesn't apply, however, if you sold another qualified principal residence within the past two years. Theoretically, you could qualify for the home-sale exclusion every two years. The old rules for a "once-in-a-lifetime" exclusion are now a distant memory.

With that in mind, here are five key points about the home-sale exclusion:

1. The home must have been used as your principal residence for any two of the past five years. The years do not have to be consecutive. Moreover, you can meet the “use” and “ownership” requirements in different tax years.

2. If you file a joint return, you can claim the maximum exclusion if (1) either spouse meets the two-year ownership test, (2) each spouse meets the two-year use test and (3) neither spouse has elected the exclusion within the past two years. This is particularly important to remember if you have recently married, divorced or remarried.

3. To meet the use requirement, you must physically occupy the home, but short absences won’t count against you. On the other hand, a longer absence, such as a one-year sabbatical by a college professor, does not count as time that the home was used as your principal residence.

4. If you own two homes and live in both places during the year, the home where you stay for most of the year is generally treated as your principal residence. For instance, if you spend seven months at a winter home and five months at a summer home, the winter home is considered your principal residence.

5. To the extent that the home has been used for business rental or use—including using a portion of the residence as a home office—you must recapture depreciation deductions attributable to the period after May 6, 1997. The recaptured income is taxed at the 25% rate.

Reminder: This is just a general overview of the tax rules for the sale of a principal residence. It is strongly recommended that you consult a professional tax adviser concerning the home-sale exclusion and other related tax ramifications for your particular situation.

Return to top

How to Give Feedback to Employees

Ways to improve business management

If you do not tell your employees what they are doing wrong, they might not get it right. But providing feedback to employees is not as simple as stating some obvious “do’s” and “don’ts.” If done properly, it can be motivating and inspiring. However, if done improperly, it can result in resentment, poor performance and deterioration of relationships.

Although each situation is different, as is every employer and employee, here are some practical suggestions for providing feedback:

- Be prepared. Before you jump in with your comments, plan what you intend to say. Prepare for the meeting and anticipate potential reactions. Play out scenarios in your mind first. Conversely, if you let your emotions rule the day, the employee might tune you out. Should you feel the need, practice with a colleague or someone else.
- Notwithstanding the above, the best time to give feedback about an incident is soon after it occurs. Once a significant amount of time has elapsed, people’s memory and interpretation of the events are likely to vary. Also, if you postpone the discussion, ill feelings may fester. No matter how difficult, it is usually best to address issues promptly, so you can quickly move on.
- Make it a two-way street. Give the recipient a chance to answer your feedback with his or her own comments. Depending on the situation, you may ask the employee to speak first or to respond to your input. In any event, encourage a dialogue as opposed to a one-way sermon from on high.
- Just the facts, ma’am. Try to focus on what actually happened as opposed to what you think may have happened or the reason for it. For instance, if an employee failed to complete a job on time, do not assume it is because the employee is lazy or is not committed to the firm. As explained above, give employees a chance to explain their side of the story.
- Speak calmly and check your emotions at the door. The response to your feedback will often depend on the tenor of the conversation. If you fly off the handle, the discussion can quickly turn into a shouting match. After you have

had your say, allow the employee an opportunity to gather his or her own thoughts and respond without interruption. Repeat in your own words what you believe the employee has said.
- Finish on a positive note. When possible, wrap things up by putting a positive spin on matters. Explain that you have high expectations for the employee and have faith that he or she will improve. Point out the need to use the feedback as a learning tool.

Of course, there are no guarantees that this common-sense approach will work, but these ideas often prove to be helpful. Above all, if you perform your supervisory position responsibly and equitably, employees are more likely to respond in a positive manner.

Return to top

Raking in Tax Breaks from Gambling

Losses are deductible against winnings

Do you like to gamble for entertainment? If the answer is "yes," it is important to understand all the tax rules relating to gambling wins and losses. Otherwise, you may end up paying considerably more taxes than necessary.

Basic premise: Gambling winnings constitute taxable income on the federal level. It does not matter how and where you win —it could be at a church raffle or the racetrack or a casino aboard a cruise ship. In any case, you owe tax to Uncle Sam on the income. Depending on the type and amount of your winnings, the payer might provide you with a Form W-2G and may withhold federal income tax from the payment.

On the other side of the coin, gambling losses are deductible on your federal tax return, but only up to the amount of your winnings. For example, if you win $10,000 in a lottery this year and then lose $12,000 at the blackjack and craps tables in Las Vegas, your deduction is limited to $10,000. Conversely, if you lose $8,000, the entire $8,000 loss is deductible, resulting in tax on $2,000 of gambling income.

Although gambling losses are deducted as miscellaneous expenses, you at least avoid a special tax-law floor. Generally, miscellaneous expenses are deductible only to the extent your annual total from all sources exceeds 2% of your adjusted gross income (AGI). But the 2%-of-AGI limit does not apply to gambling losses.

As you might imagine, taxpayers may try to play fast and loose with the rules for gambling losses, so the IRS stays on its toes. You must keep adequate records to back up your claims in case the IRS challenges gambling loss deductions. If you do not have the proper records, you may be leaving tax money on the table.

What sort of records do you have to keep? This can vary according to the gambling activity, as shown below:

- Bingo: A record of the number of games played, cost of cards purchased and amounts collected on winning cards.
- Keno: Copies of the keno tickets validated by the gambling establishment, copies of the casino credit reports and copies of the casino check-cashing records.
- Racing (horse, harness, dog, etc.): Records of the number of races, amounts of wagers and amounts won and lost.
- Slot machines: A record of the machine number and all winnings by date and time the machine was played.
- Table games (e.g., blackjack, craps and roulette): The number of the table where you played and casino credit card data indicating where credit was issued.

Note that these records may be supported by other means (e.g., unredeemed ticket stubs from the racetrack). However, the supporting records must be legitimate.

Finally, be aware that special rules apply to those who gamble professionally for a living. Among other requirements, you must be engaged in the activity with the intention of turning a profit. If you qualify, the activity is generally treated like a business, so you may be able to deduct an annual loss.

Return to top

Key Lesson: Q's and A's on 529 Plans

A tax-smart way to save for college

Despite recent proposals to scale back benefits, Section 529 plans remain a tax-favored way for parents to set aside funds for college. Here are the answers to several key questions on the subject:

Q. What exactly is a Section 529 plan?

A. It is a type of educational savings plan generally operated by individual states. If certain requirements are met, no tax is due on the accumulation of earnings or when funds are paid out for qualified expenses. There are two main types of Section 529 plans: the prepaid tuition plan and the college savings plan.

Q. How does a prepaid tuition plan work?

A. Essentially, the plan is guaranteed to keep pace with the rising cost of college tuition. For instance, let's say it currently costs $15,000 annually to send a child to a state university. You pay $15,000 now to buy shares in a plan for a youngster. When the child is ready to go to college, your shares can pay for an entire year of tuition, no matter what it costs at that point.

This type of plan is often attractive to parents because it offers peace of mind. There's no risk of loss of principal, and the investment is usually guaranteed by the state.

Q. How does a college savings plan work?

A. As opposed to a prepaid tuition plan, there is no guaranteed lock on future tuition costs under a college savings plan. In fact, the savings may not be enough to cover all of the costs. But there's a bigger potential upside, because it's possible to generate a better return with this type of plan. (Of course, there are no guarantees.)

Usually, the plan will offer an asset allocation strategy geared to the current age of the child or the year he or she will enter college. For example, the plan may provide more aggressive investments in the early years and switch over to more conservative investments as college approaches. Most college savings plans also offer a wide variety of risk-based asset allocation portfolios that are managed by professionals.

Q. What are the restrictions on contributions?

A. Anyone can contribute to a Section 529 plan on behalf of a named beneficiary. Each state is responsible for setting its own limits on the amount of contributions allowed to a college savings plan. Check the limits in the applicable state.

Under the annual gift-tax exclusion, you can contribute up to $14,000 in 2015 free of gift tax ($28,000 by a married couple). A special rule allows you to make five years' worth of Section 529 contributions in one year.

Note: In the event a child decides not to attend college or attends college in another state, you may be able to transfer funds to another plan or "roll over" funds for the benefit of a successor beneficiary (e.g., a younger child).

Finally, realize that this type of plan is not for everyone. Investigate the options carefully to determine whether a Section 529 plan suits your family's needs.

Return to top

Facts and Figures

Timely points of particular interest

Marketplace Fairness—The legislation known as the Marketplace Fairness Act is back. This law, which was previously passed by the Senate but stalled in the House, gives states the right to impose sales tax on online sellers without a physical presence in their state, thereby promoting equality for bricks-and-mortar operations. We will keep watch on developments.

Listening Skills—Are you a good listener? Most businesspeople are not. To improve, make eye contact and tilt your body toward the speaker. Sit up straight—no slouching. Nod occasionally to acknowledge you are paying attention (but be careful that this is not interpreted as agreement). Finally, don't gaze around the room, text or type e-mails.

Return to top

Shape Up or Ship Out

Are your employees in good shape? Increasingly, companies across the country are realizing the value of offering incentives for exercise to employees, such as reduced health care costs under wellness programs and discounted gym memberships. In some cases, employers are even setting up their own gym facilities.

Generally, incentives and discounts for employees are taxable, unless they qualify as a tax-free fringe benefit under a specific tax law exception, such as on-site facilities that are open to all employees.

Return to top

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