



# Client Bulletin

Smart Tax, Business & Planning Ideas *from your Trusted Business Advisor*<sup>SM</sup>

## Prepare Your Kids for Financial Independence



An AICPA survey discovered that parents are more likely to talk with their children about manners, eating habits, school grades, and substance abuse than about finances. All these topics are important, but it's also vital to teach your kids the basics of handling money.

This conversation can begin when children are very young—even before they start kindergarten. One

tactic is to give each child a piggy bank, which might hold spare change and even dollar bills. Once the children reach the age when they start learning counting skills, you can explain how five pennies make a nickel, two nickels make a dime, and so on, until you have dollars that can buy things in a store.

Parents also can open up bank accounts for youngsters; banks may have low or no minimums for children's savings accounts. Parents can take their kids to the bank to make deposits and show them the results on bank statements. If the child's account earns interest, that can offer another teaching opportunity.

### Personal finance

At some point, children may receive an allowance, earn money for doing household chores, or both. Parents might explain the choices they'll then face. Do they want to spend the money on something they want right away, put the money in their piggy bank to save for a larger purchase, or put it in the regular bank for a long-term goal? Yet another possibility is to give some of their income to those who are less fortunate. Altogether, such an exercise can give your kids the idea that there are many options for handling money, and they should consider the alternatives carefully.

Taking your child with you when you go to the supermarket, pharmacy, or hardware store can also be an educational experience. Children can see goods that are available at different prices; for example, buying a larger package often will require more money. Again, kids can see that handling finances involves making decisions. Even at a young age, children might be allowed to pick out one cereal from the rest or one type of treat for the family

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### Costlier Care

*The maximum monthly premium paid by high income seniors for Medicare Part B medical insurance grew from \$161.40 in 2007 to \$428.60 this year (a 10- year increase of 166%).*

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pet.

As children grow older, their desired items likely will become more expensive (such as an electronic device or an article of clothing). Through online, catalog, or in-store shopping, you can show them the price of the thing they've requested and explain that this is so many weeks of allowance or hours of household chores. You might set up a plan to save for this outlay, with a parental match as an incentive.

One worthwhile activity is to have your child keep a record of all the things he or she would like to have. The child can then organize those items based on "need" or "want." New shoes might be needed, for instance, but a smartphone might be wanted.

From this list, you could lead into a discussion of what's needed versus what's wanted for you as a parent. Milk and juice from the supermarket might fall into the needed category, but a new car every year may be wanted yet not necessary. Explain that it's fine to have things you want, but you may have to save for them over a time and forgo other items on the want list.

With preteens and teens, other topics can be discussed. You might show your child your checkbook, for example, and describe how you balance it every month. As they approach college, it's time to talk about college costs at various schools and the results of using student loans to pay for higher education. When children get their first credit card, they should be told how credit scores are calculated and the importance of maintaining a good record of debt repayment.

### Talking taxes

Preparing children for financial independence also means preparing them to be taxpayers. Some taxes are very visible; if you live in an area with a 5% sales tax, for instance, a \$10 purchase winds up costing \$10.50.

Other taxes might be illustrated by showing a pay stub to your son or daughter. Federal income tax will be withheld, usually along with state and local income tax. The same pay stub may also reveal payroll taxes withheld, such as those for Social Security and Medicare. (Eventually, a discussion of payroll taxes can lead to conversations about retirement planning and health insurance.) The key here is to make your children aware that a first job that pays \$3,000 a month won't provide \$3,000 to spend every month. Only what's left after taxes can be spent, with needs coming before wants. ■

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## 2017 Social Security and Medicare Taxes

- The Social Security tax rate is 6.2% each for the employee and employer.
- The Social Security wage base limit is \$127,200. Wages in excess of this amount are not subject to Social Security tax.
- The Medicare tax rate is 1.45% each for the employee and employer.
- There is no wage-based limit for Medicare tax, which applies to all earned income.
- An additional 0.9% Medicare tax is paid by employees on earnings over \$200,000 for single taxpayers or over \$250,000 for married taxpayers filing jointly.

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## New IRS Ruling May Rescue Estate Plans

President Trump's campaign promise to abolish the federal estate tax may or may not be realized. Meanwhile, the "death tax" still exists, and it continues to be a major concern for high net-worth taxpayers, including the owners of successful small companies.

If a deceased taxpayer has a surviving spouse, the estate of the deceased spouse may make a portability election. If this election is made, the unused federal estate tax exclusion of the deceased spouse (called the *deceased spouse unused exclusion*, or DSUE) can be carried over to and used by the surviving spouse. The executor of the deceased spouse's estate must make the portability election on a timely filed estate tax return that includes a computation of the DSUE.

IRS Revenue Procedure 2017-34, effective June 9, 2017, provides relief when a deceased spouse's executor fails to make a timely portability election. The revenue procedure sets out a simplified method for requesting an extension of time to executors of certain estates of decedents who died after 2010 to make the election.

The portability extension offered by this revenue procedure would be until the later of January 2, 2018, or 2 years after the decedent's date of death to make the election. Normally, the deadline is 9 months after death, or 15 months if the decedent's estate requested an extension of time to file an estate tax return.

The new extension is permanent but applies only to estates of decedents who died after 2010, survived by a spouse,

that are otherwise not required to file an estate tax return, except to make the portability election. In cases in which the surviving spouse died before a portability election was made, and the surviving spouse's estate paid federal estate tax, a tax refund may result.

### **Doubling the exemption**

The federal estate tax exemption has gradually increased from \$5 million to \$5.49 million in recent years. Thus, many estates have not owed this tax, and many executors have not filed a Form 706 federal estate tax return.

**Example 1:** Jim Cook died in 2012 when the estate tax exemption was \$5.12 million. His estate was worth \$4 million, all of which he left to his wife, Marie. Therefore, his executor was not required to file Form 706 and did not do so.

That could have been an error. Jim's estate did not use any of that year's estate tax exemption. By filing a Form 706, his executor could have elected portability of his DSUE. If the election had been made, Jim's widow Marie's estate could have used Jim's DSUE in addition to her own at her death.

**Example 2:** Assume Marie dies in 2017 with a total of \$8 million, including the assets inherited from Jim. Her estate would be over the \$5.49 million estate tax exemption this year by \$2.51 million. At a 40% estate tax rate, Marie's estate would owe over \$1 million to the IRS.

Now suppose that Jim's executor had elected portability on Form 706. Because Jim had left all of his assets to Marie, his entire \$5.12 million DSUE would be added to Marie's \$5.49 million exemption, for a total of \$10.61 million. Marie's \$8 million estate would be under that threshold, and no federal estate tax would be due.

### **Filing the form**

To obtain relief under Rev. Proc. 2017-34 from the failure to make a portability election, all the executor must do is file a complete and properly prepared Form 706 estate tax return on or before the later of January 2, 2018, or two years from the decedent's date of death. On this return, the executor should explain that it is being "filed pursuant to Rev. Proc. 2017-34 to elect portability under § 2010(c)(5)(a)." If these requirements are met, the extension of time to elect portability will be granted, and the Form 706 electing portability will be considered to have been timely filed.

As previously noted, the IRS is providing this relief retroactively to estates of decedents who died after 2010, which have until next January 2 to obtain relief under Rev. Proc. 2017-34. Estates of decedents who died after January 2, 2016, have two years from the date of death. If the decedent's surviving spouse has died, and the surviving spouse's estate has already filed Form 706 and paid estate tax on which the statute of limitation on refund has not expired, the executor of that estate can file an amended Form 706, including the decedent's DSUE, and get any resulting refund.

### **Good news for business owners**

Rev. Proc. 2017-34 can benefit the estates of all wealthy decedents, but it may be especially valuable for business owners and their heirs. When the owner of a business dies, his or her interest in the company must be valued. A moderately successful firm can have a value well into seven or even eight figures. Counting the decedent's other assets, the total can be in estate tax territory.

Generally, estate tax must be paid within nine months of death. In some cases, estates of the owners of closely-held companies may defer the tax over an extended time period. Still, the tax payments may be considerable, and the heirs of business owners may lack the liquid assets necessary for this obligation.

Such concerns might lead business owners and others into sophisticated tax planning tactics to deal with future estate tax. These tactics may be helpful, for various reasons, but the presence of portability may reduce the need, as a married couple now can easily pass on nearly \$11 million worth of assets to the next generation with portability. ■

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## **Tax Court Approves 100% Business Meal Deduction**

Many business owners, self-employed individuals, and other taxpayers are aware that business meals and entertainment expenses are only 50% deductible. You might treat a key client to a restaurant meal and spend \$100. Even if this meal has a definite business purpose (you wind up with an important contract), only \$50 will be tax deductible.

Nevertheless, some business meals can be fully deductible. The Tax Court recently overruled the IRS in a case regarding the pro hockey team, the Boston Bruins (*Jacobs v. Commissioner*, 148 T.C. No. 24, 6/26/17). Although the IRS claimed tax deficiencies totaling about \$85,000 over two years' tax returns, the court sided with the team's owners and allowed 100% deductions for meal costs.

### **Pregame preparation**

As is the case with most professional sports teams, the Bruins play half of their games away from home. National

Hockey League rules require teams to arrive well in advance, so the Bruins schedule hotel rooms for the players and other traveling employees. These hotel arrangements include the provision of rooms where meals are served, with specified menus, before the games.

All traveling employees are entitled to eat meals there at no personal cost. The players are required to eat there, on time, because considerable game planning occurs at these meals between players and coaches.

The Tax Court noted that the meal service was nondiscriminatory, as all traveling hockey employees could attend. Moreover, the meal expenses were associated with the active conduct of the taxpayer's trade or business: winning hockey games.

### The Bruins argument

The Bruins argued that the meals were 100% deductible, because the costs of the meals were excepted from the 50% meals and entertainment limitation because they were de minimis fringe benefits.

### Five tests

The court found that the meals would qualify as de minimis fringe benefits if they were provided in a nondiscriminatory manner and five other tests relating to the meal were met:

1. The eating facility is owned or leased by the employer.
2. The facility is operated by the employer.
3. The facility is located on or near the business premises of the employer.
4. The meals furnished at the facility are provided during, or immediately before or after, the employees' workday.
5. The revenue or operating cost test is passed. (This last point will be satisfied if the meals are furnished for the employer's convenience on the employer's business premises.)

The court found that the team furnished the meals in a nondiscriminatory manner because it provided the meals to all traveling hockey employees. After analyzing the evidence presented, the court decided that the meals met the five tests. Consequently, it held that the costs of the meals was 100% deductible as de minimis fringe benefits not subject to the 50% meals and entertainment limitation in IRC Section 274(n)(2)(B).

### Key takeaways



Although professional sports teams operate a very specialized business, the Tax Court's reasoning in this case may apply to other situations, especially in sports and entertainment industries in which employees are provided meals away from home as part of their work schedule.

In addition, this decision can be a reminder that certain meal expenses can be 100% deductible. For example, employers might be entitled to deduct the full cost of food and drink at events primarily for the benefit of rank and file employees. Those occasions could be holiday parties, company outings, banquets, and so on. Also, meals, snacks, and beverages provided to employees at no charge, on or near the firm's premises for valid business purposes, may be 100% deductible.

We can help you structure employee benefits of this nature so that your business will meet the requirements for full tax advantages. ■

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## TAX CALENDAR

### OCTOBER 2017

#### October 16

**Individuals.** If you have an automatic six-month extension to file your income tax return for 2016, file Form 1040, 1040A, or 1040EZ and pay any tax, interest, or penalties due.

**Corporations.** File a 2016 calendar-year income tax

your tax liability is less than \$2,500, you can pay it in full with a timely filed return.) If you deposited the tax for the quarter in full and on time, you have until November 13 to file the return.

For federal unemployment tax, deposit the tax owed through September if more than \$500.

### NOVEMBER 2017

return (Form 1120) and pay any tax, interest, and penalties due. This due date applies only if you timely requested an automatic six-month extension.

**Employers.** For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in September if the monthly rule applies.

**October 31**

**Employers.** For Social Security, Medicare, and withheld income tax, file Form 941 for the third quarter of 2017. Deposit any undeposited tax. (If

**November 13**

**Employers.** For Social Security, Medicare, and withheld income tax, file Form 941 for the third quarter of 2017. This due date applies only if you deposited the tax for the quarter in full and on time.

**November 15**

**Employers.** For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in October if the monthly rule applies.

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