PREZIOSI NICHOLSON & ASSOCIATES, CPAS

1101 Wheaton Avenue, Suite 100 Millville, NJ 08332 (856) 794-8400 Fax (856) 794-8411

Tax & Business Alert

MAY 2016

JUGGLING FAMILY WEALTH MANAGEMENT IS NO TRICK

Preserving and managing family wealth requires addressing a number of major issues. These include saving for your children's education and funding your own retirement. Juggling these competing demands is no trick. Rather, it requires a carefully devised and maintained family wealth management plan.

START WITH THE BASICS

First, a good estate plan can help ensure that, in the event of your death, your children will be taken care of and, if your estate is large, that they won't lose a substantial portion of their inheritances to estate taxes. It can also guarantee that your assets will be passed along to your heirs according to your wishes.

Second, life insurance is essential. The right coverage can provide the liquidity needed to repay debts, support your children and others who depend on you financially, and pay estate taxes.

PREPARE FOR THE CHALLENGE

Most families face two long-term wealth management challenges: funding retirement and paying for college education. While both issues can be daunting, don't

sacrifice saving for your own retirement to finance your child's education. Scholarships, grants, loans and work-study may help pay for college — but only you can fund your retirement.

Uncle Sam has provided several education incentives that are worth checking out, including tax credits and deductions for qualifying expenses and tax-advantaged savings opportunities such as 529 plans and Education Savings Accounts (ESAs). Because of income limits and

CHARITABLE GIVING'S PLACE IN FAMILY WEALTH MANAGEMENT

Do charitable gifts have a place in family wealth management? Absolutely. Properly made gifts can avoid gift and estate taxes, while possibly qualifying for an income tax deduction. Consider a charitable trust that allows you to give income-producing assets to charity, but keep the income for life — or for the charity to receive the earnings and the assets to later pass to your heirs. These are just two examples; there are more ways to use trusts to accomplish your charitable goals.

phaseouts, many higher-income families won't benefit from some of these tax breaks. But, your children (or your parents, in the case of contributing to an ESA) may be able to take advantage of them.

GIVE ASSETS WISELY

Giving money, investments or other assets to your children or other family members can save future income tax and be a sound estate planning strategy as well. You can currently give up to $14,000 per year per individual ($28,000 if married) without incurring gift tax or using your lifetime gift tax exemption. Depending on the number of children and grandchildren you have, and how many years you continue this gifting program, it can really add up.

By gifting assets that produce income or that you expect to appreciate, you not only remove assets from your taxable estate, but also shift income and future appreciation to people who may be in lower tax brackets.

Also consider using trusts to facilitate your gifting plan. The benefit of trusts is that they can ensure funds are used in the manner you intended and can protect the assets from your loved ones' creditors.

OVERCOME THE COMPLEXITIES

Creating a comprehensive plan for family wealth management and following through with it may not be simple — but you owe it to yourself and your family. We can help you overcome the complexities and manage your tax burden. ■

DISCLOSURE OF FOREIGN ACCOUNTS: 4 FACTS ABOUT FATCA

If you hold assets such as bank and other financial accounts or securities from companies outside the United States, you may need to report them to the IRS. The Foreign Account Tax Compliance Act (FATCA) requires certain U.S. taxpayers who have interests in "specified foreign financial assets" (SFFAs) to provide information via Form 8938, "Statement of Specified Foreign Financial Assets." Here are four important facts about FATCA:

1. SFFAs are indeed *specific*. Among the assets the IRS considers SFFAs are foreign financial accounts and instruments, as well as foreign stocks and securities. But some types of foreign assets don't need to be reported. These include financial accounts maintained by U.S. payers, such as the U.S. branches of foreign financial institutions or the foreign branches of U.S. financial institutions.

2. The penalties for failing to report are steep. They start with a $10,000 failure-to-file penalty. An additional penalty of up to $50,000 can be imposed if you continue to not report after being notified by the IRS. The statute of limitations is lengthy, extending to six years if you don't include gross income from a foreign asset of more than $5,000 on your tax return.

3. Not everyone with foreign financial assets needs to report. If you aren't required to file a U.S. income tax return for the year, you don't need to file Form 8938. Even if you are required to file a return, Form 8938 isn't required unless:

- You're a single filer or file separately from your spouse and held SFFAs of more than $50,000 on the last day of the tax year or more than $75,000 at any time during the tax year, or
- You're married and file jointly and held SFFAs of more than $100,000 on the last day of the tax year, or more than $150,000 at any time during the year.

The thresholds are higher for U.S. taxpayers living outside the United States. Other details, exceptions and restrictions may apply.

4. It's complicated. If you hold financial assets outside the United States, it's worth reviewing them to determine whether you're subject to the FATCA reporting requirements. But don't expect this to be a simple task; the law is complex. We can help you account for all of your foreign assets and determine whether you need to file Form 8938. ■

DON'T FORGET DEPRECIATION BREAKS FOR YOUR COMPANY'S REAL PROPERTY

As a business owner, you've probably heard plenty about depreciation-related tax breaks. But, often, such discussions focus only on the tax benefits of buying assets such as heavy equipment, office furniture and computers. Don't forget that the Internal Revenue Code also allows depreciation breaks for a company's real property.

SECTION 179

Section 179, for example, allows businesses to elect to immediately deduct (or "expense") the cost of certain assets acquired and placed in service during the tax year, instead of recovering the costs more slowly through depreciation deductions. However, the election can only offset net income; it can't reduce it below $0 to create a net operating loss.

Among the assets eligible for this break is qualified real property, which includes qualified leasehold-improvement, restaurant and retail-improvement property. Thanks to the Protecting Americans from Tax Hikes Act of 2015 (the PATH Act), the relatively high annual dollar limits of the election have been made permanent (indexed for inflation beginning this year).

Specifically, for 2016, you can expense up to $500,000 in qualified real property, subject to a phaseout that kicks in at $2,010,000 in purchases. Before 2016, only $250,000 of the $500,000 limit could be applied to qualified real property.

The PATH Act made permanent the relatively high annual dollar limits of the Sec. 179 deduction.

BONUS DEPRECIATION

Another important tax break in this area is bonus depreciation, which allows businesses to recover the costs of certain depreciable property more quickly by claiming first-year bonus depreciation. The PATH Act extended it, but only through 2019 and with declining benefits in the later years. For property placed in service during 2015, 2016 and

2017, the bonus depreciation percentage is 50%. It drops to 40% for 2018 and 30% for 2019.

Qualified leasehold-improvement property is generally eligible for bonus depreciation. (Before 2016, such property had to be leased to be eligible for bonus depreciation.) But, before claiming bonus depreciation, see whether you qualify for Sec. 179 expensing. It could provide a greater tax benefit than bonus depreciation. But bonus depreciation could benefit more taxpayers than Sec. 179 expensing, because it isn't subject to any asset purchase limit or net income requirement.

ACCELERATED DEPRECIATION

The PATH Act also permanently extended the 15-year straight-line cost recovery period for qualified leasehold improvements (alterations in a building to suit the needs of a particular tenant), qualified restaurant property and qualified retail-improvement property. The provision exempts these expenditures from the normal 39-year depreciation period.

This is especially welcome news for restaurants and retailers, which typically remodel every five to seven years. If eligible, they may first apply Sec. 179 expensing and then enjoy this accelerated depreciation on qualified expenses in excess of the applicable Sec. 179 limit.

REAL PROPERTY

It's only natural to look at the many individual objects used by your business and wonder whether and how you can depreciate them. But don't forget about the very ground beneath your feet, as well as the walls and structures around you. Real property is depreciable, too. ■

PREZIOSI NICHOLSON & ASSOC
1101 WHEATON AVE
STE 100
MILLVILLE, NJ 08332-2003

NEED A DO-OVER? AMEND YOUR TAX RETURN

Like many taxpayers, you probably feel a sense of relief after filing your tax return. But that feeling can change if, soon after, you realize you've overlooked a key detail or received additional information that should have been considered. In such instances, you may want (or need) to amend your return.

Typically, an amended return — Form 1040X, to be exact — must be filed within three years from the date you filed the original tax return or within two years of the date the applicable tax was paid (whichever is later). Your choice of timing should depend on whether you expect a refund or a bill.

If claiming an additional refund, you should typically wait until you've received your original refund. Then cash or deposit the first refund check while waiting for the second. If you owe additional dollars, file the amended return and pay the tax immediately to minimize interest and penalties.

Bear in mind that, as of this writing, the IRS doesn't offer amended returns via e-file. You can, however, track your amended return electronically. The IRS now offers an automated status-tracking tool called "Where's My Amended Return?" At irs.gov, click on the "Filing" tab at upper left; under "After You File," click on "Check status of your amended return."

If you think an amended return is needed or warranted, please give us a call. We will be glad to help. ■

This publication is distributed with the understanding that the author, publisher and distributor are not rendering legal, accounting or other professional advice or opinions on specific facts or matters, and, accordingly, assume no liability whatsoever in connection with its use. The information contained in this newsletter was not intended or written to be used and cannot be used for the purpose of (1) avoiding tax-related penalties prescribed by the Internal Revenue Code or (2) promoting or marketing any tax-related matter addressed herein. © 2016