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AUGUST 2014

LONGEVITY ANNUITIES IN IRAS AND EMPLOYER PLANS

Some who are approaching or are already in retirement are concerned that they will outlive their retirement savings. For many of these, their only source of income guaranteed for life will be Social Security, which might be inadequate to continue their current lifestyle.

A longevity annuity is an insurance product designed to guarantee an income stream beginning at an advanced age (e.g., age 80 or 85). An individual might purchase such an annuity, for example, at the beginning of retirement with a portion of their retirement savings.

Until recently, the tax rules made it difficult for individuals to buy a longevity annuity inside their Individual Retirement Account (IRA) or qualified retirement plan. Recent tax regulations now make this possible. Other tax rules and economic prudence, however, continue to limit how much of one's retirement savings can or should be used to purchase a longevity annuity.

Is this purchase a good idea? First, remember that a longevity annuity is not an investment. It is insurance against living longer than your money lasts, and it has a significant insurance cost. Because the insurance company has expenses and intends to profit from your premium, you will be a financial winner and the insurance company will be the loser only if you live significantly longer than the insurance company expects (hopes?) that you will live.

For those who have adequately saved for their retirement, we believe that a longevity annuity is inappropriate. For those who are near or at retirement and are worried that they will outlive their savings, we believe that a purely rational analysis will usually lead to the conclusion that a longevity annuity is probably not appropriate. That leaves a longevity annuity and its cost justified only for those whose retirement is underfunded and who are comforted (at a significant financial cost) by the most basic emotional appeal of insurance – peace of mind. We will be pleased to discuss this or other retirement saving issues with you.

HEALTH SAVINGS ACCOUNTS
DEDUCTION INCREASES FOR 2014

For 2014, the deduction limitations for health savings accounts' are as follows:

- Individuals with self-only coverage may deduct up to $3,300
- Individuals with family coverage may deduct up to $6,550
- The "catch up" contribution for taxpayers age 55 or over will be $1,000 for 2014

We continue to believe that HSAs provide a cost-effective way for high-income taxpayers to deduct patient-responsible medical expenses (deductibles, co-insurance, non-covered services, etc.) with pretax dollars. They also provide another way of saving with pretax dollars.

As with most tax-favored saving vehicles, HSAs require some planning to maximize their benefits. We will be happy to help you with any questions you may have about these beneficial accounts.

Property Taxes Too High?

Now is the Time to Act

August and early September is the best time to correct an over-assessment of real property and business movable property. Once the property tax bills are mailed (usually in November), it is almost impossible to change an assessment. In mid-August, each parish assessor will (as required by law) open the 2014 assessment rolls for public review and inspection for a minimum of 15 days. During this 15-day period, property owners can challenge the validity of the tax assessment. Unfortunately, the review period is very short (only 11 business days this year), and there apparently is no recourse if a timely protest is not made.

You can check the assessed value of your real property (as well as that of nearby property for comparison) in Caddo and Bossier Parishes by using the assessors' websites. For Caddo Parish, the web address is www.caddoassessor.org. For Bossier Parish, the web address is www.bossierparishassessor.org.

Because property taxes are based on a percentage of the fair market value of your property, one way to determine if your taxes are the appropriate amounts is to compare the assessor's determination of the fair market value of your property with what you believe it to be. The assessed value of a property is a percentage of the assessor's estimate of its fair market value. Accordingly, you can compute the fair market value that the tax assessor has placed on your property from the notices of assessed values mailed to you by the assessor or by visiting the assessors' websites.

The assessed amounts can be divided by .10 (10%) for residential improvements and all land (residential and business) and by .15 (15%) for commercial improvements and business personal property (furniture, equipment, and inventory) to determine the fair market value placed on the property by the assessor. For example, if the property tax assessment for a commercial building shows that the land is assessed at $5,000 and the improvements are assessed at $30,000, the assessor has determined the fair market value of the entire property to be $250,000 ($5,000/.10, or $50,000, plus $30,000/.15, or $200,000, for a total of $250,000).

Since 2013 was not a reappraisal year, the 2014 assessed values of real estate should generally be approximately the same as 2013's assessed values. Business personal property (furniture, fixtures, equipment, and inventory) is reappraised each year by the parish assessors.

If your property is in Caddo Parish, the 15-day review and protest period will start on August 15 and will close on August 31. In early August the assessor will mail notices showing the amount of the assessments on all property. By using the assessor's website, you no longer have to go to the Caddo Assessor's Office to check your real estate assessment. You can check it now without waiting until August 15. The assessor also encourages you to check your assessment and to come in to discuss it at any time, not just during the public review period.

If your property is in Bossier Parish, the rolls will also open for review and protest on August 15 and will close on August 31. By using the assessor's website, you no longer have to go to the Bossier Parish Assessor's office to check the assessment on your real property. If you want to discuss your assessment with the assessor, however, you should go to the Bossier Parish Assessor's office in Benton. The assessor also encourages you to come in to discuss your assessment at any time, not only during the public review period.

If you do find that the determination of the value of your property is excessive and if you are unable to reach an agreement with the assessor as to the value, you should file a written protest before the end of the public review period to preserve your rights to have your assessment reconsidered by the Board of Review. Form 3101 can be obtained from the assessors for use in making a written protest. Form 3101 is also available on the Louisiana Tax Commission's website – www.latax.state.la.us.

Tax & Business Alert

AUGUST 2014

DIVIDING IRAs TAX-FREE IN DIVORCE

Generally, the division of property, including cash, between divorcing spouses has no immediate federal income or gift tax consequences. Such transfers are considered tax-free gifts between the spouses. However, the tax-free transfer rule does not apply to transfers of balances in IRAs. If an IRA owner withdraws funds from his or her IRA and gives it to his or her spouse (or anyone else for that matter), the withdrawal is taxable to the IRA owner and tax-free to the receiving spouse (or whoever receives the distribution).

Fortunately, there is an important exception to this rule—transferring an individual's interest in an IRA to a spouse or former spouse pursuant to a divorce decree or separate maintenance agreement is not taxable to either spouse. This spousal exception applies to Roth IRAs, SEP accounts, and SIMPLE IRAs because they are all considered IRAs for this purpose.

The exception applies to spouses only. A distribution or transfer to anyone other than a spouse or former spouse, even if pursuant to a divorce, generally is taxable to the IRA owner.

The IRA transfer is tax-free to both spouses only if it is specifically required by a decree of divorce or separate maintenance agreement (or a written instrument incident to such a decree). Thus, the couple must eventually divorce or legally separate. Transferring an IRA under any other type of order, such as a temporary alimony or support order, is not tax-free.

Example: Transferring an interest in an IRA. In connection with his pending divorce, Ted has agreed to transfer his IRA to his spouse, Amy. The transfer to Amy must be made pursuant to their divorce decree (or a written instrument incident to the divorce); otherwise, it will be taxed to Ted. Also, a transfer made to anyone other than Amy, such as to their children, will be taxable to Ted.

If the transfer is taxable to Ted, he must include that amount in taxable income. Furthermore, if Ted is under age 59½, the 10% penalty tax on premature distributions may apply.

An IRA interest transferred under a decree of divorce or separate maintenance agreement is thereafter treated as the recipient spouse's IRA for all purposes. Therefore, the recipient spouse can manage the transferred money as he or she sees fit and continue deferring taxes until withdrawals are taken from the IRA. At that point, the recipient spouse will owe any federal income tax on the withdrawals, plus the 10% penalty tax on premature distributions may apply if he or she is under age 59½ at the time of the withdrawal.

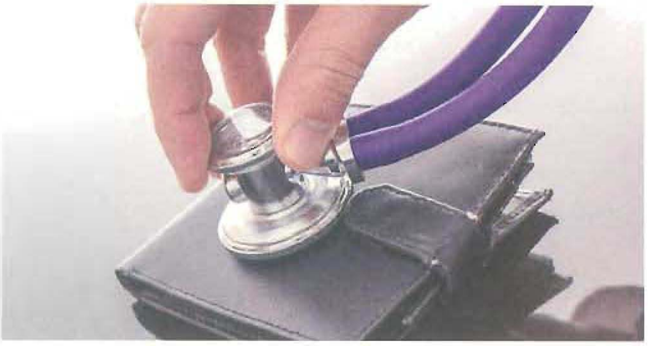
The safest way to accomplish a divorce-related IRA transfer is through a trustee-to-trustee transfer. If the IRA trustee will not make a payment to the spouse's or ex-spouse's IRA, the transferor spouse can roll over the funds to a new IRA in his or her name and then assign ownership (and change the name) of the new IRA to the receiving spouse. ■

WHAT YOU NEED TO KNOW ABOUT REQUIRED HEALTH INSURANCE COVERAGE FOR 2014

Beginning in 2014, the individual shared responsibility provision of the Affordable Care Act (ACA) requires you and each member of your family to have qualifying health insurance (called minimum essential coverage), have an exemption, or pay a shared responsibility penalty with your 2014 individual income tax return, Form 1040. Many people already have minimum essential coverage and don't need to do anything more than maintain that coverage.

Do I have minimum essential coverage? You have minimum essential coverage if you have employer-sponsored coverage, coverage obtained through a Health Insurance Marketplace, or coverage through a government-sponsored program. Coverage under certain other plans will qualify as well. You must maintain this coverage for each month of the calendar year.

Am I eligible for an exemption? You may be exempt from the requirement to maintain minimum essential coverage if you're a member of certain religious sects, a federally recognized Indian tribe, or a health care sharing ministry. You may also be eligible if you are suffering a hardship, meet certain income criteria, or are uninsured for less than three consecutive months of the year.



Will I have to pay a penalty? If you or any of your dependents don't have minimum essential coverage or an exemption, you will have to pay an individual shared responsibility penalty with your tax return.

For 2014, the annual shared responsibility penalty is the greater of—

- 1% of your household income that is above your tax return filing threshold, or
- Your family's flat dollar amount, which is $95 per adult and $47.50 per child, limited to a family maximum of $285 for 2014.

However, the maximum amount cannot be more than the cost of the national average premium for a bronze level health plan available through the Marketplace in 2014.

KEEP YOUR RECORDS SAFE IN CASE DISASTER STRIKES

Some natural disasters are more common in certain seasons. But major events like hurricanes, tornadoes, and fires can strike at any time. It's a good idea to plan for what to do in case of a disaster. You can help make your recovery easier by keeping your tax and financial records safe. The IRS suggests that taxpayers take some basic steps to prepare.

Backup Records Electronically. You should keep a set of backup records in a safe place away from the original set. This is more easily accomplished now that many financial institutions provide statements electronically and other financial information is readily available on the internet. Even if the original records are on paper, they can be scanned into an electronic format. The electronic files should be backed up on an external hard drive, USB flash drive, CD, DVD, or to the cloud for safe keeping

Document Valuables. Take photos or videos of the contents of your home or business. These visual records can help you prove the value of your lost items. They may help with insurance claims or casualty loss deductions on your tax return. You should store them with a friend or relative who lives out of the area.

Update Emergency Plans. Emergency plans should be reviewed and updated, because personal and business situations change over time, as do preparedness needs.

CORPORATE ANNUAL MEETINGS ARE IMPORTANT

Generally, one of the requirements for maintaining a corporation's existence (and the liability protection that it affords) is that the shareholders and Board of Directors must meet at least annually. Although most people view this requirement as a necessary evil, it doesn't have to be a waste of time. For example, in addition to being a first step in making sure the corporation is respected as a separate legal entity, an annual meeting can be used as an important tool to support your company's tax positions.

Besides the election of officers and directors, other actions that should be considered at the annual meeting include the directors approving the accrual of any bonuses and retirement plan contributions, and ratifying key actions taken by corporate officers during the year. It is common for the IRS to attack the compensation level of closely held C Corporation shareholder/officers as unreasonably high and, thereby, avoiding taxation at the corporate level. A well-drafted set of minutes outlining the officers' responsibilities, skills, and experience levels can significantly reduce the risk of an IRS challenge. If the shareholder/employees are underpaid in the start-up years because of a lack of funds, it is also important to document this situation in the minutes for future reference when higher payments are made.

The directors should also specifically approve all loans to shareholders. Any time a corporation loans funds to a shareholder, there is a risk that the IRS will attempt to characterize all or part of the distribution as a taxable dividend. The primary documentation that a distribution is intended to be a loan rather than a dividend should be in the written loan documents, and both parties should follow through in observing the terms of the loan. However, it is also helpful if the corporate minutes document the need for the borrowing (how the funds will be used), the corporate officers' authorization of the loan, and a summary of the loan terms (interest rate, repayment schedule, loan rollover provisions, etc.).

A frequently contested issue regarding a shareholder/employees' use of employer-provided automobiles is the treatment of that use as compensation (which is deductible by the corporation) versus treatment as constructive dividends (which is not deductible by the corporation). Clearly documenting in the corporate minutes that the personal use of the company-owned automobile is intended to be part of the owner's compensation may go a long way in ensuring the corporation will get to keep the deduction.

If the corporation is accumulating a significant amount of earnings, the minutes of the meeting should generally spell out the reasons for the accumulation to help prevent an IRS attempt to assess the accumulated earnings tax. Also, transactions intended to be taxable sales between the corporation and its shareholders are sometimes recharacterized by the IRS and the courts as tax-free contributions to capital. Corporate minutes detailing the transaction are helpful in supporting a bona fide sale.

As you can see, many of the issues raised by the IRS involve the payment of dividends by the corporation (the IRS likes them—the corporation doesn't). To help support the corporation's stance that payments to shareholders are deductible and that earnings held in the corporation are reasonable, corporate minutes should document that dividend payments were considered and how the amount paid, if any, was determined. Dividends (even if minimal) should generally be paid each year, unless there's a specific reason not to pay them. In which case, these reasons should be clearly documented.

These are just a few examples of why well-documented annual meetings can be an important part of a corporation's tax records. As the time for your annual meeting draws near, please call us if you have questions or concerns. ■

SOCIAL SECURITY STATEMENTS AVAILABLE ONLINE

Your social security statement provides useful information, such as your earnings history and an estimate of your retirement, disability, and survivor's, benefits. Getting a copy of this statement is quick and easy for anyone with internet access. First go to *www.socialsecurity.gov/myaccount/* where you'll first need to create an account by providing your social security number, email address, mailing address, and answering some simple questions. You can then sign in to see your statement. ■

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2015 HSA AMOUNTS

Health savings accounts (HSAs) were created as a tax-favored framework to provide health care benefits mainly for small business owners, the self-employed, and employees of small- to medium-sized companies who do not have access to health insurance.

The tax benefits of HSAs are quite substantial. Eligible individuals can make tax-deductible (as an adjustment to AGI) contributions into HSA accounts. The funds in the account may be invested (somewhat like an IRA), so there is an opportunity for growth. The earnings inside the HSA are free from federal income tax, and funds withdrawn to pay eligible health care costs are tax free.

An HSA is a tax-exempt trust or custodial account established exclusively for the purpose of paying qualified medical expenses of the participant who, for the months for which contributions are made to an HSA, is covered under a high-deductible health plan. Consequently, an HSA is not insurance; it is an account, which must be opened with a bank, brokerage firm, or other provider (i.e., insurance company). It is therefore different from a flexible spending account in that it involves an outside provider serving as a custodian or trustee.

The recently released 2015 inflation-adjusted contribution limit for individual self-only coverage under a high-deductible plan is $3,350, while the comparable amount for family coverage is $6,650. For 2015, a high-deductible health plan is defined as a health plan with an annual deductible that is not less than $1,300 for self-only coverage and $2,600 for family coverage, and the annual out-of-pocket expenses (including deductibles and copayments, but not premiums) must not exceed $6,450 for self-only coverage or $12,900 for family coverage.