# PAYROLL RESPONSIBILITIES GO BEYOND WRITING PAYCHECKS

As an employee, you may not have thought much about the procedures behind the issuance of your paycheck. But as a new business owner, you'll need to understand how federal employment taxes work because you'll have to withhold these payroll taxes from your employees' paychecks. Here's an overview of four types of payroll tax.

**Social Security.** Social security taxes are part of the *Federal Insurance Contributions Act,* also known as FICA. You're required to withhold this tax from an employee's wages each payday at a rate of 6.2%. As an employer, you'll "match" the 6.2%, which means you pay a total of 12.4% when you make your payroll deposit. In 2016, you withhold and match social security taxes on the first $118,500 each employee earns.

**Medicare.** Medicare taxes are also part of FICA. You're required to withhold Medicare from an employee's wages at a rate of 1.45%. As an employer, you'll match this 1.45%, for a total tax of 2.9%. Generally, all the wages you pay to your employees are subject to Medicare tax.

**Additional Medicare.** As an employer, you're required to withhold an additional 0.9% tax from an employee's wages when you pay that employee more than $200,000 per year. The withholding begins when the employee's wages exceed $200,000. You're not required to match the Additional Medicare tax.

**Federal income tax.** The amount of federal income tax that you withhold from an employee's wages is based on Form W-4, "Employee's Withholding Allowance Certificate," which is completed by each employee. Use the information on Form W-4 to determine the correct amount of withholding from tables provided by the IRS.

In addition to the taxes you withhold from your employees' paychecks, your business may also have to pay other payroll taxes such as federal and state unemployment. If you need help, please contact us.

(1610)

# CONSIDER THE FINANCIAL IMPACT OF A JOB TRANSITION

Are you ready to begin a job search or launch a career transition? Here are suggestions to manage your finances wisely before making the change to new employment.

**Plan your income stream.** Check for a gap in pay dates and make plans to have enough savings set aside to tide you over. Include increased commuting or healthcare costs in your calculation of how much money you'll need to make the transition. Ask whether a salary increase will trigger changes in your student loan payments.

**Review health care and insurance options.** Will your deductible change at the new job, or will you experience a delay in eligibility for medical benefits? Consider the timing of vision and dental exams, optional procedures, and prescriptions before changing jobs. Also decide what you'll do with the remainder of your Flexible Spending Account.

**Learn about 401(k) and pension choices.** If your current job offers a pension, you may have to decide whether to receive the funds as an annuity or as a lump sum. You have several options for your 401(k) funds, such as leaving your account with your current employer, transferring the balance to a self-directed IRA or to your new employer, or withdrawing the balance. Since these decisions have tax and potential penalty implications, talk to us before you take action.

**Budget for loans and mortgages.** Do you have a 401(k) loan? To avoid having to report the amount you still owe as income on your tax return, you'll have to repay the outstanding balance when you leave your current job. If you're considering a new home, anticipate that lenders will generally require two years of income verification for mortgages.

Changing jobs is exciting as well as stressful, and applying an appropriate level of financial review and forethought can ease the transition. Contact us for assistance.

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# BUSINESS CHARITABLE DEDUCTIONS REQUIRE A LITTLE TAX WISDOM

Aristotle famously lamented that giving away money is easy, but giving it away wisely is another matter. For business owners, smart giving begins with an understanding of a few tax rules.

**Your business form.** The tax implications of giving to charity from your business depend on your form of entity. A regular C corporation can donate to charity and reduce taxable income accordingly. Sole proprietorships, partnerships, and S corporations cannot reduce taxable income by donating to charity. Instead, the charitable deduction passes to the owners' personal return as an itemized deduction, where it can be subject to certain limitations.

**The type of donation.** If your donation results in the receipt of a benefit in return, such as advertising space in a nonprofit's newsletter, the gift might be treated as a qualified business expense for any type of business. Special rules may also apply, such as those that encourage gifts of excess food inventory. All businesses can deduct qualifying donations of food inventory that are deemed "wholesome" and are used by the charity to further its exempt purpose.

**Valuation issues.** Non-cash donations of inventory by businesses can present tricky valuation issues. C corporations again have the advantage, with the deduction generally valued at basis plus one-half of the difference between the fair value and the corporation's cost basis. The maximum deduction is twice the cost basis of the item. Other entity types are typically limited to the lesser of cost basis or fair market value, although donations of food are generally valued at the fair market value.

**Records.** Keep in mind that any gift of $250 or more will require a properly worded receipt from the charity before you file your return. Larger gifts might require an appraisal.

For more details on the tax rules for business charitable giving, contact our office.

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TEACH YOUR KIDS TO USE CREDIT CARDS RESPONSIBLY

No doubt you have shared the adage "if it sounds too good to be true, it probably is" with your children. That caution is wise, especially when teaching your kids how to use credit cards responsibly, because misuse of credit can have a long-term impact on financial health. The main lesson you want to impart: While credit cards can be very useful financial tools, the borrowed money is not "free." Here are two opportunities to share that lesson.

**When choosing a card.** Show your kids the entire credit card lifecycle. Explain that when evaluating credit cards, a comparison of benefits is crucial. For example, although choosing a credit card offering a large signing bonus may be tempting, the annual fee associated with the card can mean the benefit is not worth the cost.

Also make sure your kids grasp the concept of the annual percentage rate (APR). The APR shows the cost of credit as an annual rate that includes points, fees, and other adjustments, and allows the comparison of offers from different card issuers, or different types of cards from the same issuer.

**When making payments.** Have your kids review the monthly statement with you. Let them see the time lapse between the date a purchase is charged to when the bill is due, and mention how quickly the balance can add up over time if good spending habits are not followed. Explain the consequences of paying only the minimum required amount each month versus the entire amount due.

When teaching your kids good credit card skills, you don't have to have all the answers. Learning together gives you an opportunity to strengthen your understanding of card features and terms as well as your child's understanding. If either of you have questions, give us a call. We're happy to help.

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