Business Matters

FALL 2014

GET READY FOR TAX SEASON

A year end checklist

The end of the year is fast approaching, but there's still time for business owners to plan to minimize tax liability. The following checklist is designed to help you review your 2014 transactions and activities and take beneficial action before Dec. 31.

Have you under- or overpaid? If you've underestimated your quarterly payments, plan to send a larger amount to the IRS in the fourth quarter. You may be able to avoid underpayment penalties by increasing your estimated tax payment and using the annualizing exception when filing your tax return. If, on the other hand, you've overpaid at least $500 and at least 10% of your expected tax liability, you may be able to use the IRS's "quick refund" procedure.

Have you calculated the impact of gains and losses? You may be subject to a higher than anticipated tax rate because of depreciation recapture. If this is the case, consider whether selling other depreciable assets will allow you to offset existing gains. If you've sold assets at a loss, you may be able to use those losses to reduce your ordinary income or to shelter a capital gain on other assets.

Have you deferred or accelerated income? Generally, you want to try to defer tax liability to next year. If your company is cash based, you might *decelerate* income and *accelerate* expenses by putting off billing for your products or services. If your company is accrual based, you might delay shipping products or delivering services into the new year.

Have you taken advantage of Section 179? If you haven't used the $25,000 maximum for 2014, you may want to do so. Keep in mind that the Sec. 179 expensing election may be limited based on the amount of qualified assets your business purchased this year. Also, to the extent you're eligible to use Sec. 179, watch out for the midquarter convention

Continued on page 4

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IS TECHNOLOGY *HARMING* YOUR BUSINESS?

Fraud schemes to watch out for

Cybersecurity breaches, such as recent hack attacks on Target, Neiman Marcus and J.P. Morgan, grab all the headlines. But most businesses are likely to fall victim to smaller-scale technology fraud — most often schemes perpetrated by their own employees. Here are several to look out for.

PHISHING

Technology can play a critical role in helping prevent and detect fraud, but it's also used to perpetrate and disguise wrongdoings. The Web in particular has opened up new virtual avenues for fraudsters.

Consider phishing — one of the oldest types of Internet fraud and still immensely popular. Phishers might e-mail executive, accounting or HR staff, posing as a legitimate entity such as a bank or governmental agency, and encourage recipients to download malicious software (malware). Such malware allows the fraudsters to record keystrokes and uncover passwords. The phisher can then use this information to divert funds from company accounts or steal proprietary data.

PURCHASING FRAUD

Respondents to the most recent Association of Certified Fraud Examiners (ACFE) survey estimated that the typical organization loses 5% of its annual revenues to employee fraud. In this survey of fraud examiners, the ACFE revealed that the reported schemes committed by workers in the IT department caused a median loss of $50,000.

IT staffers might, for example, accept kickbacks from vendors or submit fraudulent invoices for equipment or software that wasn't actually obtained. The risk of this type of fraud is especially high when the same person who approves purchase orders and receives shipments also approves invoices.

INTERNAL CONTROL OVERRIDES

Employees can also wield technological knowledge to override internal controls intended to prevent fraud.

Organizations that fall prey to tech-related fraud share some common traits. These include poor or nonexistent technology controls (passwords, data validity checks) and lax oversight of technology spending (such as lacking a formal vendor bidding process). Also, many of the employees of such companies have low "technology IQs."

DETECTION AND PREVENTION

Certain behavioral patterns can help you spot and stop such occupational fraud schemes. Red flags should go up if IT staff:

- Have been experiencing financial difficulties,
- Appear to be living beyond their means,
- Are reluctant to share responsibilities with other staffers,
- Don't take vacation or sick days, or
- Are evasive when asked for information.

Certain behavioral patterns can help you spot and stop occupational fraud schemes.

To prevent illicit activities from occurring in the first place, conduct thorough background checks on all prospective IT employees. Also consider offering an anonymous tipline to staffers, customers and vendors. These reporting mechanisms have repeatedly proven to be one of the most effective tools for fighting fraud.

THIEF-PROOF CONTROLS

Technology fraud can be costly, so enlist the help of a specialist to ensure that what keeps your business running isn't being used to harm it. A qualified fraud expert can conduct risk assessments and help design internal controls that even savvy fraudsters will find difficult to override. ■

USE A STRETCH IRA TO GO THE DISTANCE

Maybe you're in the enviable position of not needing your retirement accounts for retirement. If your nest egg is more than adequate, it's time to start thinking about tax-efficient ways of passing wealth to your heirs. A stretch IRA is designed to do just that.

EXTEND THE BENEFITS

You can turn a regular or Roth IRA into a stretch IRA simply by designating a beneficiary. This can be a child, grandchild or even your spouse — as long as the beneficiary is significantly younger than you. The younger the beneficiary, the longer funds can grow tax-deferred.

A spouse named as beneficiary can, after your death, elect to roll the IRA's funds over into his or her own IRA. This enables the funds to continue growing tax-deferred or tax-free until your spouse begins withdrawing the funds in retirement.

Children or grandchildren named as beneficiaries have several options. The best choice generally is to hold the funds in an "inherited IRA" that allows them to spread required minimum distributions (RMDs) over their own life expectancy. This maximizes the benefits of tax-deferred or tax-free growth.

However, your beneficiary could take a lump-sum distribution on your death. Or, if you die before beginning to take RMDs, your beneficiary could withdraw the IRA's funds by the end of the year of the fifth anniversary of your death. And if you die after beginning to take RMDs, your beneficiary could opt to withdraw the funds over your "remaining" life expectancy, as calculated under the IRS's Uniform Lifetime table as of the year of death.

BEWARE OF LUMP SUMS

Although stretch IRAs provide tax advantages, there's no guarantee your beneficiary will benefit. Your child or grandchild could opt for a lump-sum distribution, which will erase any potential stretch IRA benefits.

If you're concerned that this might happen, consider naming a trust as beneficiary. Be aware that, for a trust to qualify for stretch treatment, it must meet certain requirements, such as distributing RMDs received from the IRA to the trust beneficiaries.

MAKE AN ESTATE PLAN

Not all retirement accounts qualify for stretch treatment. (For example, employer-sponsored 401(k) plans follow different rules.) Talk to your tax or estate planning advisor about stretching out IRA benefits and other strategies for transferring wealth. ■

DON'T SKIMP ON DISABILITY INCOME INSURANCE

If you're self-employed or your employer's benefits package is a little skimpy, consider buying your own disability income insurance policy. Should you become ill or injured and are unable to work, such coverage can mean the difference between a comfortable convalescence and a financial crisis.

Your policy should pay out at least 60% to 70% of your income. Determine what you need by adding up monthly expenses such as mortgage and insurance payments, property taxes, groceries, home maintenance, utilities, and revolving debt payments. Keep in mind that, if you aren't working, you no longer have commuting and professional clothing expenses.

Look for a policy that defines "disability" as broadly as possible. And it should specify that benefits are paid out if you can't work in your "own" rather than "any" occupation. Otherwise you may be forced to accept a lower-paying job. You can reduce the cost of coverage by opting for a longer waiting period before payouts would begin.

Aside from greater peace of mind, disability income insurance provides another advantage. Generally, a policy paid for with after-tax dollars provides tax-free benefits.

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Continued from page 1

that limits depreciation if 40% or more of the year's asset purchases are made in the last quarter.

Have you thought about owner distributions? It pays to plan if you want to minimize tax on owner distributions. Verify your company's year-to-date profit or loss and accumulated earnings, as well as the owner's basis, amount at risk, loans to the company, loan repayments and other factors.

This checklist is only a sample of the deductions that may be available to your business. Talk to a tax advisor about others that may apply in your situation. ■

CALENDAR VS. FISCAL YEAR: WHEN TO MAKE A CHANGE

When your business was new, you may have chosen calendar year tax filing because it seemed like the simplest option. Now that your company is more mature, you might want to think about moving to a fiscal year basis. Many businesses find that a fiscal year basis offers greater convenience, improved workflow and maximum data efficiency.

If you operate a seasonal business, reporting income by calendar year could split your season and provide a distorted view of income and expenses. So if your business shows most of its expenses in one year and income in another, consider switching to a fiscal tax year. It will help ensure that both periods are included in the same 12-month data set.