UPDATE

Margaret McDeed, Editor

Spring Issue 2016

DwightDarby&Company

Certified Public Accountants

In This Issue

John Brannan
Managing Partner

Brad Tushaus
Senior Partner

Kathy Tushaus
Audit Partner

Dawn Lopez
Audit Partner

Wayne Bond
Senior Member

611 S. Magnolia Ave.
Tampa, FL 33606
813.251.2411

www.dwightdarby.com

Find Us On:

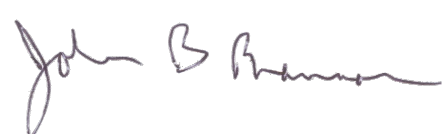
A MESSAGE FROM JOHN BRANNAN MANAGING PARTNER

As many of you may have heard, on January 28, I was diagnosed with Acute Myeloid Leukemia. I am receiving excellent care and treatment at Moffitt Cancer Center on the USF Campus in Tampa. The in-patient treatment plan will last a minimum of 30 days, which will prevent me from being in the office during this time.

Throughout my absence, two of my partners, Brad Tushaus and Dawn Lopez, will be leading the firm. They will be providing oversight of tax and accounting services needed for the firm's clients for whom I am responsible. I am maintaining communication with Brad and Dawn, as well as with our team of professionals, to ensure that your personal and/or corporate tax returns are prepared and filed on a timely basis. As part of this process, I am continuing to communicate with clients, and am forwarding emails and voice messages with the tax information you are providing to the appropriate individual with our firm.

It is my hope and prayer for my health to be restored and to be able to return to the office sometime in March, at least on a part-time basis. If you would like to follow my progress, you may visit my Caring Bridge page at http://www.caringbridge.org/visit/johnbrannan

I appreciate your positive thoughts, prayers and understanding during this challenging situation. For the kind words of encouragement and well wishes sent to me, I am deeply grateful.



Welcome & Notables

Please join us in welcoming our newest staff accountant Kurt Dimanna. He comes to us with three years of tax experience from a fellow BKR firm in the Washington, D.C. area. He has moved back to the Tampa Bay area after living in Maryland for three years. He received his BS in Accounting from the University of Central Florida in 2011. He has passed two of the four sections of the CPA exam and will be completing the additional two sections in 2016.

UPCOMING TRADESHOW WE ARE ATTENDING

Dwight Darby & Company will be participating as exhibitors in the **West Florida Chapter Community Associations Institute** tradeshow . Look for us at **CA Day (Community Association) Education & Trade Expo** on March 10, 2016. It will be held at the Bradenton Area Convention Center in Palmetto, Florida. Exhibitors will include condominium and HOA industry experts available to share their knowledge. Please stop by our booth if you plan to attend!

HOBBY vs. BUSINESS

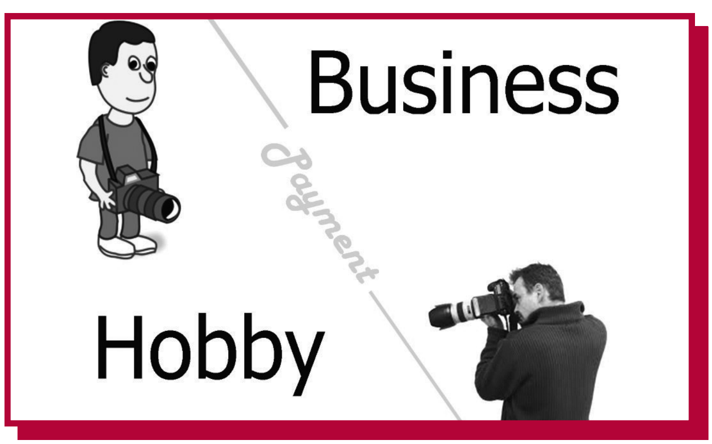
Kurt Dimanna

Section 183 Hobby Loss rules are of particular importance to business owners. The IRS can question whether an entity is structured as a C Corporation, S Corporation, LLC, or limited partnership. The main issue to the IRS is that an activity is engaged for profit. The IRS says for an activity to be considered a business the activity must make a profit three out of every five years. There are nine factors listed in Treasury Regulation 1.182-2 that list whether or not an activity is taken upon to make a profit.

The first factor in establishing your entity as a business with a profit motive is to carry on the activity in a businesslike manner such as creating bank accounts in the business name and keeping separate records. The second factor taken into consideration is the expertise of the taxpayer of the business that he or she is operating in. Common industry practices being placed into the taxpayer's business or advice taken from industry experts demonstrate a serious interest in profit. Devoting a substantial amount of a time to an activity is the third factor of being in business for a profit. However, a taxpayer who is not committing substantial time to an activity will not adversely affect the position as being in business for profit as long as there are qualified and competent employees carrying on the activity on behalf of the taxpayer.

The fourth factor considering a profit motive is that the taxpayer expects the business assets to appreciate in value. This is essentially proving that a taxpayer is in business for a profit. The fifth factor is looking at if the taxpayer has had profitable activities previously. Past activities that were profitable may indicate a current activity could be profitable even if they are unprofitable at the current time. A sixth factor is the timetable for profit and losses. A period of sustained losses could be construed as being not-for-profit. However, as normal business expenses are deductible this is not the only determinable factor.

The seventh factor states that substantial profits in good times and minimal losses in bad times are seen favorable in the taxpayer's intent of being in a profitable business. This goes back to the idea of a business being profitable in three out of the last five business years. The eighth factor relates to the financial status of the taxpayer. If the activity at hand is the main source of income for the taxpayer without substantial income from other sources, it certainly indicates a favorable profit motive. Last but not least, the ninth factor describes how the activity being considered has a personal motive at hand. Activities for profit generally lack recreational appeal.



These nine factors can be used as a measuring tool for whether or not your business is being operated for the purpose of a profit or could be argued as a hobby in the eyes of the IRS. However, the nine factors are not all inclusive on deciding whether an activity is for profit or not.

Law Closes Loopholes Involving Social Security Benefits But Some May Still Be Able to Take Advantage

Dave Bove

A law passed last year closes loopholes in the Social Security rules that have allowed married couples to receive more benefits over their lifetimes by following certain strategies. The Bipartisan Budget Act of 2015 shuts down loopholes that Congress said will "prevent individuals from obtaining larger benefits than Congress intended."

However, while the loopholes will soon close, people in certain situations can still take advantage of them. Here's a brief description of the strategies that have been used by some married couples. It has been estimated that a couple using one of these strategies could receive tens of thousands of dollars more than if they hadn't used it:

1. File and suspend. Under this method, a higher-earning spouse claims benefits at his or her full retirement age, (currently age 66). However, this spouse then immediately suspends the benefits until a later date (for example, age 70). This allows the individual's Social Security credits to continue growing. (More credits mean a higher benefit later on). Meanwhile, the lower-earning spouse claims Social Security benefits based on his or her spouse's lifetime earnings record, which is higher and will amount to more than the benefits based on his or her own earnings record.

The new law eliminates the file-and-suspend strategy for claims filed after April 30, 2016, which is 180 days after enactment. If you've been using this method, you won't be affected. Or if you're eligible and want to claim benefits using this method until April 30, 2016, you still can. But after that date, the method will be unavailable.

2. Restricted Application. The new law also eliminates the restricted application strategy, which is sometimes called the "claim some benefits now, claim more later" method. Under this approach, a spouse reaching full retirement age who is eligible for both spousal Social Security benefits (based on his or her spouse's earnings) *and* retirement benefits (based on his or her own earnings) can file a restricted application for only spousal benefits. Then, the spouse delays applying for retirement benefits based on his or her own earnings record (up until age 70) and his or her Social Security credits keep growing. For those who turn 62 after 2015, the new law abolishes the ability to file a restricted application for only spousal benefits. If you're age 62 or older in 2015, you're still able to use the restricted application strategy for only spousal benefits upon reaching full retirement age.

Filing for Social Security benefits can be a complicated process. While the new law closed these loopholes, there are still various options for claiming benefits. You can still earn Social Security credits, and thus receive higher amounts in the future, by waiting past the full retirement age to claim benefits.

Maximizing your Social Security benefits has been more important in recent years because inflation increases have been small or nonexistent. For example, the Social Security Administration announced there won't be a Cost of Living Adjustment this year because there was no increase in the Consumer Price Index from the third quarter of 2014 to the third quarter of 2015.

Based on information provided by the government, the average monthly benefit for retirees is expected to be $1,341 in 2016. Retired couples where both spouses are eligible for benefits are expected to receive an average monthly benefit of $2,212 in 2016.

Consult with your financial adviser about how to proceed in your situation to maximize your lifetime payout.

POLICIES AND PROCEDURES FOR YEAR-END CLOSING

Susan Ghaly

Every business should have policies and procedures in place to close out the fiscal year-end accounting records. This article will provide some guidance on an effective close-out as well as the benefits for doing so.

First and foremost, the end of the year is a good time to verify that all of the adjusting journal entries (AJEs) made by your accountant at the end of the previous year have been posted to your books. If Dwight Darby & Company prepared your prior year tax return, you should have received a copy of the AJEs when you received your tax return copy. Take a look at those entries and make sure that they have been properly entered in your accounting records. Proper posting of prior year entries will save us time when preparing your current year tax return.

Secondly, take a close look at your December bank statement(s) and make sure that all cash accounts are reconciled. If your cash account does not reconcile to the bank, investigate any unreconciled differences and make year-end adjustments as needed. Such items may need to be reported to the Florida Bureau of Unclaimed Property. A manual with instructions for reporting unclaimed property can be found at www.myfloridacfo.com.

Another procedure we recommend, especially for businesses that have a lot of fixed assets (furniture, computers, machinery, etc.), is to review your fixed asset detail list for accuracy. You should either remove or instruct us to remove all assets no longer in service. Doing so can potentially lower the tangible taxes for entities subject to personal property taxes.

If your business has accounts receivable take a look at your aging report and make sure that it agrees to the balance sheet. Also on the aging report, consider writing off as bad debt expense any amounts that are deemed to be uncollectible. If on accrual basis, doing so can help to lower the amount of income reported by your entity and will ultimately lower income taxes.

The above procedures are all recommended standard accounting procedures. When done properly, it will result in a cleaner set of books which will prove advantageous in case of an IRS audit. Please let us know if you need assistance in implementing any of these procedures in your business.

CAPTIVE INSURANCE UPDATES

Dawn Lopez

In mid-December 2015, Congress passed the "Tax Extenders" which were signed by the President. Included within the Tax Extenders is H.R. 34 within Section 262 is "Modifications to Alternative Tax for Certain Small Insurance Companies" which impact captive insurance companies (CIC) that made the 831 (b) election.

This type of insurance company is designed to improve risk for small to mid-size companies by owning their own insurance company. These entities provide protection to businesses and related entities through insuring varying risks and by accumulating loss reserves.

The 831(b) entities pay no federal income tax on the underwriting profits if the gross premium revenues were $1.2 million or less annually. This means that a business can shift $1.2 million into a captive business and pay tax only on the investment earnings. This is done by insuring risks of the business. Simply put, you pay premiums out of your business (and receive a tax deduction for the premiums paid) into your captive. There are however many rules to follow in order to not pierce the captive structure.

H.R. 34 increased the gross premium revenues to $2.2 million beginning in 2017, with inflation adjustments each year thereafter. It also includes a diversification requirement that impacts either risk distribution or ownership structure. Two new diversification tests are (generally stated):

1. The percentage ownership of the captive must closely mirror the ownership of the parent company(ies).
2. Captives may not receive more than 20% of net premiums from one policy holder.

As this is new legislation there will be an entire year to scrutinize its effects from industry experts. We will keep you posted as we receive clarification on the details.

If you have questions whether a captive insurance company may be beneficial to your business please do not hesitate to call Dawn Lopez or Pam Mattox and we would be happy to discuss.

Important Tax Figures for 2015 & 2016

Pam Mattox

Individual Retirement Accounts	**2015**	**2016**
Roth IRA Individual, up to 100% of earned income	$5,500	$5,500
Traditional IRA Individual, up to 100% of earned income	$5,500	$5,500
Roth and traditional IRA additional annual "catch-up" contributions for account owners age 50 and older	$1,000	$1,000

Qualified Plan Limits	**2015**	**2016**
Defined Contribution Plan limit on additions on Sections 415(c)(1)(A)	$53,000	$53,000
Defined Benefit Plan limit on benefits (Section 415 (b)(1)(A))	$210,000	$210,000
Maximum compensation used to determine contributions	$265,000	$265,000
401(k), SARSEP, 403(b) Deferrals (Section 402(g)), & 457 deferrals (Section 457(b)(2))	$18,000	$18,000
401(k), 403(b), 457 & SARSEP additional "catch-up" contributions for employees age 50 and older	$6,000	$6,000
SIMPLE deferrals (Section 408(p)(2)(A))	$12,500	$12,500
SIMPLE additional "catch-up" contributions for employees age 50 and older	$3,000	$3,000
Compensation defining highly compensated employee (Section 414(q)(1)(B))	$120,000	$120,000
Compensation defining key employee (officer)	$170,000	$170,000
Compensation triggering Simplified Employee Pension contribution requirement (Section 408(k)(2)(c))	$600	$600

Driving Deductions	**2015**	**2016**
Business mileage, per mile	57.5 cents	54 cents
Charitable mileage, per mile	14 cents	14 cents
Medical and moving, per mile	23 cents	19 cents

Transportation Benefit Exclusion	**2015**	**2016**
Monthly commuter highway vehicle and transit pass	$250	$255
Monthly qualified parking	$250	$255

Standard Deduction	**2015**	**2016**
Married filing jointly	$12,600	$12,600
Single (and married filing separately)	$6,300	$6,300
Heads of Household	$9,250	$9,300

Standard deduction for individuals who can be claimed as dependents cannot exceed the lesser of (1) $6,300 or 2) the greater of $1,050 or $350 plus the individual's earned income.

Personal Exemption	**2015**	**2016**
Amount	$4,000	$4,050
AGI phaseout:		
Married filing jointly and surviving spouses	Begins $309,900	Begins $311,300
Heads of Household	Begins $284,050	Begins $285,350
Unmarried Individuals	Begins $258,250	Begins $259,400
Married filing separately	Begins $154,950	Begins $155,650

Domestic Employees	**2015**	**2016**
Domestic employer threshold to withhold/pay FICA for house cleaners, babysitters, etc.	$1,900	$2,000

Kiddie Tax	**2015**	**2016**
Net unearned income not subject to the "Kiddie Tax"	$2,100	$2,100

Estate Tax/Annual Gift Exclusion	**2015**	**2016**
Federal estate tax exemption	$5.43 million	$5.45 million
Maximum estate tax rate	40%	40%
Amount you can give each recipient	$14,000	$14,000

Closing Entries

ANNIVERSARIES

The following Dwight Darby & Company employment anniversaries will be occurring this spring:

Wayne Bond – 49 years in May

Brad Tushaus – 40 years in June

Ann Orand – 1 year in May

Christina Winters

QUICK MEAL TIME RECIPE & NEW APP

As a mother of four and working full-time, meal time is a struggle around the house. Here is a quick easy recipe for chicken sandwiches that can please a 2, 4, and 7 year old and easy enough to make with a new born strapped on the hip.

~ Publix rotisserie chicken pulled apart
~ Wet mozzarella
~ Basil
~ Crusty baguette/ French bread
~ Mayonnaise

Spread a little mayonnaise on the bread with chicken and top off with wet mozzarella and a few basil leaves. It's a fresh, quick meal that everyone can enjoy!!!

Can't decide where to go for dinner? Tired of the same old argument with your spouse, friends, or significant other? Don't smother them. CoChow! with them. This new app takes the hassle out of deciding where to eat!! It is available at Google Play and like them on Facebook.

Dwight Darby & Company
611 S. Magnolia Ave.
Tampa, FL 33606-2744

To receive this newsletter in electronic format, please send an email to **cpa@dwightdarby.com** with the words "mailing list" in the subject line. Please also let us know if you are a business, individual, or both.