

SOLUTIONS

Summer ♦ 2017

Dear Clients and Friends

Professionally Speaking

James F. Knight, CPA, a Principal of our firm, presented a seminar on the Sales and Use Tax for the Mid-Atlantic Hearth, Patio & Barbecue Association, at its annual conference on June 5 in the Valley Forge (PA) Convention Center. Please contact us to request a tax or financial professional to speak at your organization's next meeting or event.

CONGRATULATIONS to these members of our accounting team on their recent promotions to the position of Supervisor:

- ♦ **Glen Dymond, CPA**
- ♦ **John Campbell, III, CPA**
- ♦ **Sophie Kim, CPA**

CONGRATULATIONS also to **George Solometo, CPA** on earning his Certified Public Accountant license in February. We proudly support all of our employees in pursuing professional development and salute George on his significant accomplishment.

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Investing That Makes an Impact



By Jamie DiRenzo, CIMA®, AIF®
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Socially responsible investing (SRI) has come to represent various investment strategies that favor companies with business practices generally viewed as socially responsible, ethical, and/or sustainable. Overall, investor interest in SRI has been gaining momentum. In fact, the number of investment funds incorporating ESG (environmental, social, and governance) factors has increased 12% in the last two years alone, from 894 in 2014 to 1,002 in 2016. These 1,002 funds represent \$2.6 trillion in net assets.¹

What is SRI?

Fundamentally, SRI is an investment strategy in which companies' social and environmental records and objectives are factored in when building a portfolio. Money managers who use SRI strategies often integrate ESG factors with traditional financial analysis to choose securities for their funds. The heightened focus on corporate



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Building a Better, Budget-Friendly Vacation

Summer's here. But if you haven't started planning your vacation, don't despair. There's still time to book a getaway, and these tips can help save you time and money as you plan your trip.



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In Our Community

Anti-Defamation League® (ADL) Walk Against Hate

Inspired by St. Clair CPA Solutions Partner **Alan B. Gubernick, CPA**, who serves as Vice Chair and Co-Development Chair of ADL Philadelphia Region, on May 21, 2017 our employee team proudly participated in the Anti-Defamation League® (ADL) Walk Against Hate, to stand up against bigotry and celebrate diversity. To date, this year's Walk has raised over \$400,000 to fund important ADL programs such as *No Place For Hate®*, A WORLD OF DIFFERENCE® Institute and more.

Alan, who has been involved with ADL for six years, says, "St. Clair CPA Solutions has been a corporate sponsor of the ADL Walk against Hate since its inception in 2011. We are proud to be a part of ADL's mission to 'ensure equal justice for all.' It is important to the partners and team members of St. Clair CPA Solutions to be in the forefront of inclusion and fair treatment for all people, no matter their

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Investing That Makes an Impact, CONT.

sustainability issues allows investors to compare how businesses in the same industry have adapted to meet social and environmental challenges, and provides some insight into which companies may be exposed to risks or have a competitive advantage. For example, in some instances, poor decisions and lack of planning could cause negative financial results for a company, whereas good corporate citizenship may boost a company's public image and help create value.

Why is SRI attractive to investors?

Individual investors may have different opinions about which policies and practices have a positive or negative impact on society. Fortunately, there are a number of SRI options to choose from. This gives investors the ability to build a portfolio that aligns with their personal values and offers the potential for earning positive returns. In addition, investors may have difficulty measuring the intangible value associated with socially responsible companies, which means these companies may be undervalued and represent a potential buying opportunity.



What might investors find unappealing?

SRI opponents claim that investing should be about making money first; therefore, social and environmental issues are viewed as noble impediments to that goal. Focusing on SRI strategies limits the total universe of available investments and could make it more challenging to diversify and maintain your desired asset allocation.

Diversification and asset allocation are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. Moreover, although data is available, it can be difficult to thoroughly assess the ethics of a given company. For example, beyond the value chains of a company itself, investors might also need to look at the different social standards among the contractors and subcontractors associated with the company.

Remember that different SRI funds may focus on very different ESG criteria, and there is no guarantee that an SRI fund will achieve its objectives.

All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful. The return and principal value of SRI stocks and mutual funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest. ■

¹ The Forum for Sustainable and Responsible Investment, 2016

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Self-Employment Tax Reduction Strategies for Spouse-Owned Businesses

If you own a profitable, unincorporated business with your spouse, you're probably fed up with high self-employment (SE) tax bills.

An unincorporated business in which both spouses are active is typically treated as a partnership that's owned 50/50 by the spouses — or a limited liability company (LLC) that's treated as a partnership for tax purposes and owned 50/50 by the spouses. In either case, you and your spouse must separately calculate your respective SE tax bills.

For 2017, that means you'll *each* pay the maximum 15.3% SE tax rate on the first \$127,200 of your respective shares of net SE income from the business. (See "Self-Employment Tax Basics" at right.) Those bills can mount up if your business is profitable. Here are three ways spouse-owned businesses can lower their combined SE tax hit.

1. Establish that You Don't Have a Spouse-Owned Partnership (or LLC)

To illustrate the adverse tax consequences of operating a spouse-owned partnership, suppose you expect your business to generate \$250,000 of net SE income in 2017. You and your spouse must separately calculate SE tax. So each of you will owe \$19,125 ($\$125,000 \times 15.3\%$), for a combined total of \$38,250. To make matters worse, your SE tax bill is likely to increase every year due to inflation adjustments to the Social Security tax ceiling and the growth of your business.

These adverse effects apply only if you have a business that is properly treated as a 50/50 spouse-owned partnership or a spouse-owned LLC that's properly treated as a 50/50 partnership for federal tax purposes.

Several IRS publications attempt to create the impression that involvement by both spouses in an unincorporated business automatically creates a partnership for federal tax purposes. For example, the *Tax Guide for Small Business* says, "If you and your spouse jointly own and operate an unincorporated business and share in the profits and losses, you are partners in a partnership, whether or not you have a formal partnership agreement."

However, in many cases, the IRS will have a tough time making the argument that a business is a 50/50 spouse-owned partnership (or LLC). Consider the following quote from an IRS private letter ruling: "Whether parties have formed a joint venture is a question of fact to be determined by reference to the same principles that govern the question of whether

persons have formed a partnership which is to be accorded recognition for tax purposes. Therefore, while all circumstances are to be considered, the essential question is whether the parties intended to, and did, in fact, join together for the present conduct of an undertaking or enterprise."

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Self-Employment Tax Basics

For 2017, the 15.3% rate hits the first \$127,200 of net SE income (up from \$118,500 for 2016). It includes 12.4% for the Social Security tax component and 2.9% for the Medicare tax component.

Above the Social Security tax ceiling, the Social Security tax component goes away, but the Medicare tax component continues at a 2.9% rate before rising to 3.8% at higher income levels.

If you have an unincorporated small business in which both you and your spouse participate, you may have been treating it as a 50/50 spouse-owned partnership or as a spouse-owned LLC that's treated as a 50/50 partnership for tax purposes. The more profitable your business is, the more you're paying in SE tax bills. That's because you and your spouse must separately calculate your respective SE tax bills. For 2017, that means you will each pay the maximum 15.3% SE tax rate on the first \$127,200 of your respective shares of net SE income from the business.

Not-for-Profit Organizations: Restricting Deductions on Restricted Gifts

It isn't often that a not-for-profit organization can count on a large donation from an anonymous donor. More likely, it'll receive a contribution with strings attached, such as a request to name property after the donor or use the funds for a specific purpose.

As with other donations, donor-restricted gifts may qualify for a tax deduction, but there are extensive IRS guidelines that must be followed.

For starters, taxpayers may deduct charitable gifts only if they're made "to or for the use of" organizations authorized to accept contributions under Section 170 and accompanying regulations in the U.S. Internal Revenue Code. So, while a donor can impose restrictions on a gift, your organization must be able to use the income to further its tax-exempt purpose. This is the foundation of the tax rules on restricted gifts.

If a gift is earmarked for noncharitable purposes, or if the purpose falls outside of your organization's mission, the gift can't be deducted.

Two-Pronged Test

Donations mustn't benefit specific individuals, regardless how deserving they may be. The IRS asks two questions in its test to determine if a gift has been earmarked for an individual:

1. Does your not-for-profit maintain discretion and control over the contribution? A "yes" answer works in the donor's favor.
2. Does the donor intend to benefit your organization or the individual? A written agreement can provide some clarity as to how the gift will be handled. The IRS will look to the signed agreement and accompanying documentation for insight into the real intentions.

The IRS has issued extensive regulations on restricted gifts that can be deducted, such as:

- ♦ Contributing property to a city for use as a public park,
- ♦ Creating an endowment fund for a college or specific school department, or
- ♦ Donating funds to construct a building used by a tax-exempt organization.

Note: *Restrictions or conditions on gifts must be made at the time of the donation. In other words, a donor can't say a gift is restricted but fail to impose the restrictions at the time of the gift. Such a gift may be treated as incomplete and, therefore, nondeductible.*

Key Considerations

There are several important issues affecting deductions for restricted gifts. They include:

Condition precedents. A charitable deduction won't be allowed if a donation is conditioned on a certain action or event happening before the gift takes effect. The deduction is disallowed unless the possibility that the action or event won't occur meets the "so remote as to be negligible" test.



The U.S. Tax Court defined "so remote as to be negligible" as a "chance which persons generally would disregard as so highly improbable that it might be ignored with reasonable safety in

undertaking a serious business transaction" and "so highly improbable and remote as to be lacking in reason and substance." (Briggs v. Commissioner, 72 T.C. 646 1979)

For example, one donor contributed a patent to a university on the condition that a certain faculty member with expertise on the technology covered by the patent remain on the faculty for the patent's fifteen-year remaining life. The IRS ruled that the possibility that the faculty member might not remain on the faculty wasn't so remote as to be negligible and no charitable deduction was allowed.

Reverter clauses. Under these provisions, gifts will revert to the donors unless their conditions are met. For example, if a donor gives land to the city for a public park but the city zones the property for another use, a reverter clause may require that the land be returned. These clauses can cause the donation to be nondeductible unless the event triggering the reversion meets the "so remote as to be negligible" test.

Naming opportunities. Gifts to establish a scholarship, endowment or other project to commemorate a donor can be deducted as long as the donation furthers your not-for-profit's charitable purpose. However, it should be noted that a scandal

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The Ins and Outs of Deducting Legal Expenses

Legal expenses incurred by individuals are typically not currently deductible under the federal income tax rules. Instead, they're most often treated as either personal outlays (which are nondeductible) or as part of the cost of acquiring an asset, such as real estate.

In the latter situation, legal costs usually aren't deductible right away; instead, they may be capitalized and amortized over a number of years if the asset is used for a business or rental activity.

A recent U.S. Tax Court decision and IRS Private Letter Ruling (PLR) showcase exceptions to the general rule and when taxpayers may be eligible for current deductions for legal expenses.

Tax Court Decision

In *Ellen Sas v. Commissioner* (T.C. Summary Opinion 2017-2), an employee who was fired by her employer was allowed to write off legal expenses as a miscellaneous itemized deduction.

Here, the taxpayer received a \$612,000 bonus from her employer before being terminated for alleged breach of fiduciary duty. When the employer attempted to recover the bonus, the taxpayer counterattacked, alleging employment discrimination.

Eventually, all claims against the employee were dismissed, and she was allowed to keep the bonus. But she incurred almost \$81,000 in legal fees — and wanted to deduct them on her personal tax return as part of the expenses for a business that she and her husband operated.

IRS auditors concluded that the legal expenses constituted unreimbursed employee business expenses, which should be classified as miscellaneous itemized deductions. This category of deductions can be claimed only to the extent that they exceed 2% of your adjusted gross income (AGI). But you're allowed to combine unreimbursed employee business expenses with other miscellaneous itemized deduction items — such as job search costs, fees for tax advice and tax preparation, and expenses related to taxable investments — when attempting to clear the 2%-of-AGI threshold.

Important note: Miscellaneous itemized deductions are disallowed under the alternative minimum tax (AMT) rules. So, if you're subject to the AMT, these deductions won't benefit you.

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When Can You Claim a Nonbusiness Deduction for Legal Expenses?

As stated in the main article, an individual's legal expenses aren't usually deductible. But here are two more exceptions to the general rule that may apply, even if the expenses aren't business-related:

1. Expenses for Production or Collection of Income and to Handle Tax Matters

You can deduct legal expenses incurred for 1) the production or collection of income, such as legal actions to collect unpaid wages and alimony, or 2) the determination, collection or refund of any tax. However, these types of legal expenses must be treated as miscellaneous itemized deduction items. Miscellaneous itemized deduction items can't be deducted under the alternative minimum tax (AMT) rules and can be written off only to the extent they exceed 2% of your adjusted gross income under the regular tax rules.

2. Expenses for Certain Discrimination and Whistleblower Claims

You can claim "above-the-line" deductions for legal expenses incurred in certain discrimination lawsuits and for attempts to collect whistleblower awards. You don't have to itemize expenses to benefit from above-the-line deductions — and they're fully deductible under the AMT rules.

Building a Better, Budget-Friendly Vacation, CONT.

If you're short on time

- ◆ **Not in the mood to do the research yourself?** You can avoid spending hours figuring out where to go and what to do by working with an experienced travel agent. Give your agent a general idea of what you're looking for and let him or her put together a plan that fits your schedule and budget. Besides saving you time, getting ideas from an expert might prompt you to try something different this year!
- ◆ **More of a do-it-yourself type?** Travel websites such as Expedia, Kayak, and Travelocity make it easy to plan, allowing you to book your flight, hotel, and car rental with just a few clicks. If you want to stay at a particular hotel, be sure to check its site as well, as some deals are available only when you book directly with the property.
- ◆ **Waited too long to book a beach vacation?** You may not be out of luck if you're flexible with your dates. Consider going on an off-peak week (that is, outside of the July–August rush), when you'll likely find greater availability and lower prices.

Getting more bang for your vacation buck



Hopper, the airfare prediction app, reports that according to its extensive research, airfare to Europe will be at the lowest rates for the last three years, with price decreases most significant during all summer months. “Europe is a huge bargain this summer, with prices currently down about 18% from last year,” posted Hopper’s Patrick Surry on April 20, 2017.

Wondering where to travel? Hopper says that for airfare bargains, the best summer destination is Ibiza, Spain, currently down by 45% compared to last year, followed by Glasgow, Scotland, currently down by 43%. Other bargain destination cities for summer 2017 are Split, Oslo, Stockholm, Paris, Manchester, Dubrovnik, Porto and London.

If hunting for discounts is part of the thrill in booking your vacation, there are even more ways to save:

- ◆ **Time it right.** Sunday is often the most expensive day to fly during the summer, while Tuesday and Wednesday tend to be the cheapest.
- ◆ **Don't wait too long to book your flight!** Although winging it can occasionally work in your favor, it often means paying more for your tickets—especially if your travel dates aren't flexible. If you want to maximize your savings, keep an eye out for bargains in the period starting four months ahead of your trip and up through three weeks prior. When you spot a deal during this window, it's usually wise to go ahead and make your purchase.
- ◆ **Leverage your agent's connections.** Your travel agent, if you decide to go with one, may be able to offer discounts through relationships he or she has established with hotels and airlines. Just ask!
- ◆ **Peruse a package.** If you book through a travel website, be sure to check out the vacation packages it may offer. Depending on your time frame and destination, purchasing a package may add up to big savings. All-inclusive deals with meal plans can be worthwhile also, but it pays to do your research. Does the plan cover what you're really looking for, or would it be less expensive to purchase what you need à la carte? Take a close look at what's covered, as well as menu options and reviews from other travelers, before making a decision.
- ◆ **Go local.** If you plan to rent a beach house or other non-hotel property, it's a good idea to take advantage of local rental agents and resources. Although larger rental agencies may be more prominently advertised, you might find better deals and hidden gems by reaching out to local property managers.
- ◆ **Maximize online opportunities.** Renting a private home or apartment may provide a better value—particularly for large families/groups—and a more “authentic” travel experience. If you're shopping on a site such as AirBnB or VRBO (Vacation Rentals By Owner), be sure to fully understand the details and read comments posted by previous guests. Although some of these rentals are offered through property managers, many are direct from owners, who (just

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The Ins and Outs of Deducting Legal Expenses, CONT.

The taxpayer took her case to the Tax Court. But it agreed with the IRS that the legal costs were unreimbursed employee business expenses because they arose from the taxpayer's business of being an employee (albeit a former employee at the point they were incurred).

IRS Private Letter Ruling

In a recent PLR, the taxpayer had experience managing closely held companies, and he had agreed to serve as the managing shareholder of a newly formed corporation in exchange for a management fee. After another shareholder became dissatisfied with the corporation's performance, the taxpayer was sued for alleged breach of contract, breach of fiduciary duty and fraud.



The taxpayer incurred legal fees to unsuccessfully defend against these charges and unsuccessfully appeal the initial court decision against him. In addition, he paid fees to accounting consultants and an expert witness. And, he had to

pay court-ordered compensatory and punitive damages to his legal adversary, as well as the adversary's legal fees.

The taxpayer wanted to deduct all of these expenses, which clearly originated in the conduct of his business as the managing shareholder of the troubled corporation. Therefore, the IRS concluded that the taxpayer's payments to satisfy the final judgment against him (including compensatory and punitive damages and his adversary's legal costs) and his own legal expenses and related costs to unsuccessfully defend against the claims could be currently deducted as business expenses.

Important note: This conclusion won't necessarily apply to other taxpayers in the same or a similar situation. By requesting a PLR, a taxpayer asks the IRS, for a fee, to provide guidance on federal income tax questions. PLRs interpret and apply tax laws to that particular taxpayer's specific set of facts. A PLR helps eliminate uncertainty before the taxpayer's return is filed — and it's binding on the IRS if the taxpayer fully and accurately described the proposed transaction in the request and carries out the transaction as described. Technically, a PLR can't be relied on by other taxpayers. However, as a practical matter, PLRs are often used by tax professionals as guides to the IRS position on issues.

Business vs. Personal

Individuals will sometimes incur legal expenses that are legitimately business-related and, therefore, deductible. But, if you're audited, the IRS will routinely disallow legal expense deductions unless you can adequately prove that the expenses are indeed business-related (including related to the business of being an employee). In the right circumstances, your tax advisor can help you put together evidence to support deductible treatment for legal expenses. ■

Not-for-Profit Organizations: Restricting Deductions on Restricted Gifts, CONT.

or crime may force or encourage your organization to rescind the name. In this case, the gift may have to be returned (you can include morals clauses in every gift agreement to protect your organization's name).

DOs and DON'Ts

The disallowance of a deduction can affect your organization as well as the donor. It can:

- ♦ Tie up your resources,
- ♦ Damage its reputation, and
- ♦ Jeopardize its tax-exempt status.

Organization leaders should be on the lookout for warning signs, such as large gifts coming out of the blue by unknown donors at the close of the tax year. ■

SPECIAL REPORT:

Federal Tax News

The IRS issues 2018 inflation-adjusted HSA figures

New guidance provides the annual inflation-adjusted contribution, deductible and out-of-pocket expense limits for 2018 for Health Savings Accounts (HSAs). For calendar year 2018, IRS Revenue Procedure 2017-37 announces that the limitation on deductions for an individual with self-only coverage under a high deductible health plan (HDHP) is \$3,450 (up from \$3,400 for 2017). The limitation on deductions for an individual with family coverage under an HDHP is \$6,900 (up from \$6,750 for 2017).

Education expenses weren't deductible

The U.S. Tax Court has determined that a software engineer couldn't deduct the \$59,282 cost of obtaining an executive master of business administration because the degree qualified her for a new profession, rather than refined her existing business skills. Education expenses are deductible if made to maintain or improve skills required in one's business or employment or to meet the employer's or legal requirements as a condition to retaining one's salary, status or employment. (TC Summary Opinion 2017-26)

**Research tax credit opportunity for start-ups**

Eligible small business start-ups of a new option: They may now choose to apply part or all of their research credit against their payroll tax liability. The IRS also informed eligible businesses that, under a special rule for

the 2016 tax year, if they already filed their 2016 federal income tax returns and failed to choose this option, they can still do so by filing an amended return by December 31, 2017. Contact your tax advisor for more information.

Couple couldn't treat money they took out of their corporation as nontaxable

The U.S. Tax Court ruled that a married couple, who were officers in an export-import business, couldn't treat checks and cash withdrawals they'd made from corporate accounts as nontaxable loans because there was no bona fide debt. They couldn't have reasonably repaid the purported loans because their income wasn't high enough. There were no contemporaneous promissory notes and a later-prepared note didn't provide an interest rate or fixed repayment schedule. (TC Memo 2017-55)

The proposed border adjustment tax (BAT) faces daunting challenges

Senate Finance Committee Chairman Orrin Hatch (R-UT) said the 20% import tax is unlikely to win enough support from the committee to be part of a Senate tax reform bill. The BAT, which would exempt U.S. export revenues from federal tax but impose a flat 20% tax on imports, is backed by House leaders Paul Ryan (R-WI) and Kevin Brady (R-TX). The Finance Committee, with 14 Republicans and 12 Democrats, oversees tax policy and needs to approve tax laws before they're considered by the full Senate.

**On-the-side aviation deduction grounded**

The U.S. Tax Court upheld the IRS's disallowance of a commercial airline pilot's business deductions on her federal tax returns for expenses associated with her side aviation activity. She purchased a military training aircraft but didn't have any clients and didn't advertise her services to the public.



The court concluded that, although the taxpayer intended to ultimately enter into an aviation business for profit, the activity didn't rise to the level of an active trade or business. A deduction typically is allowed for ordinary and necessary expenses paid or incurred while carrying on a functioning trade or business. ■

Self-Employment Tax Reduction Strategies for Spouse-Owned Businesses, *CONT.*

The IRS private letter ruling identifies these factors, none of which is conclusive, as evidence of this intent:

- ◆ The agreement of the parties and their conduct in executing its terms,
- ◆ The contributions, if any, that each party makes to the venture,
- ◆ Control over the income and capital of the venture and the right to make withdrawals,
- ◆ Whether the parties are co-proprietors who share in net profits and who have an obligation to share losses, and
- ◆ Whether the business was conducted in the joint names of the parties and was represented to be a partnership.

In many situations where both spouses have some involvement in an activity that has been treated as a sole proprietorship or in an activity that has been operated as a single-member LLC (SMLLC) that has been treated as a sole proprietorship for tax purposes, only some of the factors listed in the private letter ruling are present. Therefore, the IRS may not necessarily succeed in arguing that the business is a spouse-owned partnership (or LLC).

That argument may be especially weak when:

- ◆ The spouses have no discernible partnership agreement, and
- ◆ The business hasn't been represented as a partnership to third parties, such as banks and customers.

If your business can more properly be characterized as a sole proprietorship or as an SMLLC that is treated as a sole proprietorship for tax purposes, only the spouse who is considered the proprietor owes SE tax.

Let's assume the same facts as in the previous example, except that you take a supportable position that your business is a sole proprietorship operated by one spouse. Now you have to calculate SE tax for only that spouse. For 2017, the SE tax bill would be \$23,023 [(\$127,200 x 15.3%) + (\$122,800 x 2.9%)]. That's much less than the combined SE tax bill from the first example (\$38,250).

2. Establish That You Don't Have a 50/50 Spouse-Owned Partnership (or LLC)

Not all businesses are owned 50/50 by their owners. Say your business can more properly be characterized as a partnership (or LLC) that's owned 80% by one spouse and 20% by the other spouse, because one spouse does much more work than the other.

This time, let's assume the same facts as in the previous example, except that you take a supportable position that your business is an 80/20 spouse-owned partnership (or LLC). In this scenario, the 80% spouse has net SE income of \$200,000, and the 20% spouse has net SE income of \$50,000.

For 2017, the SE tax bill for the 80% spouse would be \$21,573 [(\$127,200 x 15.3%) + (\$72,800 x 2.9%)], and the SE tax bill for the 20% spouse would be \$7,650 (\$50,000 x 15.3%). The combined total SE tax bill is \$29,223 (\$21,573 + \$7,650), which is significantly lower than the total from the first example (\$38,250).



3. Liquidate Spouse-Owned Partnership and Hire One Spouse as an Employee

This strategy is a little more complicated than the previous strategies. **First, you'll need to dissolve your existing spouse-owned partnership or spouse-owned LLC** that's treated as a partnership for federal tax purposes, and start running the operation as a sole proprietorship or SMLLC treated as a sole proprietorship for federal tax purposes. Even if the partnership (or LLC) owns assets and has liabilities, this step is generally a tax-free liquidation under the partnership tax rules.

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Self-Employment Tax Reduction Strategies for Spouse-Owned Businesses, CONT.

The second step is to hire one spouse as an employee of the new proprietorship (SMLLC). Pay that spouse a modest cash salary, and withhold 7.65% from the salary checks to cover the employee-spouse's share of Social Security and Medicare taxes. As the employer, the proprietorship must pay another 7.65% directly to the government to cover the employer's half of Social Security and Medicare taxes. However, since the employee-spouse's salary is modest, the Social Security and Medicare tax hits will also be modest.

The third step is to consider setting up a Section 105 medical expense reimbursement plan for the employee-spouse. Use the plan to cover your family's out-of-pocket medical expenses, including health insurance premiums, by making reimbursement payments to the employee-spouse out of the proprietorship's business checking account. Deduct the plan reimbursements as a business expense of the proprietorship. On the employee-spouse's side of the deal, the plan reimbursements are free of federal income, Social Security and Medicare taxes because the plan is considered a tax-free fringe benefit.

The fourth step is to deduct, on the sole proprietorship's

(SMLLC's) tax schedule, the medical expense plan reimbursements, the employee-spouse's cash salary, and the employer's share of Social Security and Medicare taxes. These deductions also reduce the proprietor's net SE income and the SE tax bill for the business.

Finally, you'll need to calculate the SE tax bill for the spouse who is treated as the proprietor. This minimizes the SE tax hit, because the maximum 15.3% SE tax rate applies to no more than \$127,200 of SE income (for 2017), vs. up to \$254,400 if you continue to treat your business as a 50/50 spouse-owned partnership (or LLC).

Important note: If you have employees other than the spouse, your business may have to cover them under a Section 105 medical expense reimbursement plan.

Consult a Tax Pro

SE taxes can quickly add up, but there are several strategies that spouse-owned businesses can use to reduce their combined total bill. Consult with us before using any of these strategies to avoid any potential pitfalls and make the optimal choice for your business. ■

Building a Better, Budget-Friendly Vacation, CONT.



like you) want to ensure a positive transaction. Experienced travelers suggest that you may increase your chance of securing a booking if you pay attention to the profile you create for yourself on these sites, and also reach out via a personal email to the owner/manager before you Request Booking. Introduce yourself, tell them a little about who will be traveling and why you would like to rent their

property. As in most things, building relationships yields better results.

Wherever and whenever you decide to go, a little proactive planning will help set the stage for a truly relaxing vacation—and possibly leave you with extra cash in your pocket. Mixing business with a family vacation? Be sure to contact us to better understand the tax ramifications of deducting travel expenses. ■

In Our Community, cont.

Anti-Defamation League® (ADL) Walk Against Hate, cont.

background or beliefs. This is an important part of our corporate culture. I am extremely proud of our team members who take time out of their active lives to give back to the community.”

Founded in 1913, the ADL is the nation’s premier civil rights/human relations agency, working tirelessly to protect the rights of all people by building bridges of communication, understanding and respect among diverse groups through information, education, legislation, and advocacy. You can still “Take a Step in the Right Direction™” and contribute to the ADL Walk Against Hate at www.walkagainsthate.org. ■



Members of the St. Clair CPA Solutions team supporting the ADL Walk Against Hate on May 21, 2017.

St. Clair CPA Solutions Continues to Support Worthy Nonprofit Organizations

Our firm continues to support worthy nonprofit organizations in communities served by our New Jersey and Pennsylvania offices by participating in “Dress Down for Charity.” This monthly event allows our employees to dress casually on a designated day when they donate \$5 to the selected charity, often nominated by a member of our employee team.

APRIL



Jessica Silver (Fran’s niece, second from right) enjoys a traditional summer camp experience at Camp Nejeda. Glucose monitors like one worn by the camper on far right help children control their Type 1 Diabetes.

In April, **Frances Sperling Feldbaum, CPA, MBA**, a Principal of St. Clair CPA Solutions, nominated **Camp Nejeda**, which her niece, Jessica Silver, has attended for seven years. Camp Nejeda is an overnight camp for children with Type 1 Diabetes, staffed with medical professionals who understand how to keep children with Type 1 Diabetes safe, while allowing these children to receive all the value, fun, and memories of a traditional summer camp experience. Established in 1958, Camp Nejeda is a place “where children with Type 1 Diabetes can be themselves.”

Fran says, “It is important that future campers are able to enjoy this special place the same way Jessica does. To help make this possible, Camp Nejeda provides over \$100,000 of financial aid to campers each year. They also have to cover the costs of running a traditional overnight camp, as well as having a fully equipped health center and trained medical staff. With approximately 1,000 children with Diabetes to care for over the course of the summer, these things are vital to camp, and donations help make it possible. Thank you to St. Clair CPA Solutions, our employees and anyone who helps support Camp Nejeda and the children this wonderful camp serves!” Learn more at <http://www.campnejeda.org/>.

In Our Community, cont.

St. Clair CPA Solutions Continues to Support Worthy Nonprofit Organizations, cont.



MAY

For May's "Dress Down for Charity" recipient, **Maureen Cardamone**, an Accounting & Auditing Manager in our Pennsylvania office, nominated **Cradles to Crayons**, a nonprofit organization that provides children from birth through age 12, living in homeless or low-income situations, with the essential items they need to thrive at home, at school and at play. Cradles to Crayons supplies these items free of

charge by engaging and connecting communities "that have" with communities "that need." The organization is also part of Putting Kids First (#kidsfirst), a network of Greater Philadelphia area nonprofits that together are helping to ensure that all children get the support they need to build a brighter future. Learn more and donate at <https://www.cradlestocrayons.org/>.



JUNE

because their primary mission is not to adopt out dogs, but to provide

In June, our employees are dressing down to support **Monkey's House**, a sanctuary providing hospice care to senior dogs who, through no fault of their own, are homeless in their senior years. Monkey's House differs from other rescues

all the care and love dogs need for however long they live. At Monkey's House, the all-volunteer staff takes pride in providing a loving home environment at its six-acre farm in Burlington County, NJ. Donations support the facilities, food, care, medications and veterinary costs for the dogs who have found a home at Monkey's House. Learn more and donate here: <http://www.monkeyshouse.org/cms/>. ■



Be our Guest at an Informal Evening with BalletX

Tuesday, June 27

5:30-6:30 pm Open Rehearsal

6:30-7:30 pm Reception with
BalletX dancers and choreographer
Matthew Neenan

The Performance Garage
1515 Brandywine Street, Philadelphia, PA



balletX

Advance reservations required; find details and registration link at www.cpasolutions.net/Community or contact Marsha Brown at **610.862.1998** for assistance. Visit www.balletx.org to learn more.