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Save yourself some stress. Start your year-end tax review now



Are you confused about your choices for paying medical expenses under your employer's benefit plan? Here are differences between two types of commonly offered accounts: a health savings account (HSA) and a health care flexible spending account (FSA).

An important part of our service to you is to help identify actions you can take before year-end to minimize your personal 2016 federal income tax bill. Accelerating or delaying income and deductions, contributing to retirement plans, and taking investment losses are just a few of the strategies you might want to consider. Here's a checklist to help you get started.

Max out your 401(k) before year-end. For 2016, you can set aside \$18,000 if you're under age 50. If you're 50 or older, you can contribute \$24,000.

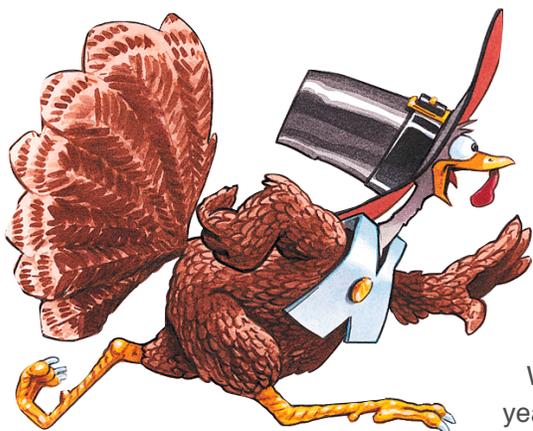
Get your investment planning in order. Year-end sell decisions, either to rebalance your portfolio at the lowest tax cost or to offset gains and losses, are only one aspect of investment planning. Another is keeping good records for the reinvested dividends of stocks you sell in 2016. Reinvested dividends add to your cost basis and reduce taxable gain or increase the deductible loss on the sale. Finally, consider the wash sale rule. This rule disallows a current-year loss when you purchase substantially identical securities within a 61-day period. If you plan to sell stocks to secure a loss, and intend to buy the stock back, don't wait until the last moment.

Make gifts before year-end. The use-it-or-lose-it tax-free gifting allowance is \$14,000 per donee for 2016. Remember, gifts to individuals are not tax-deductible.

Contribute to your Health Savings Account. Within limits, contributions are tax-deductible and can be used tax-free to pay unreimbursed medical expenses.

Keep an eye on the "kiddie tax." This tax on your dependent child's unearned income in excess of certain limits applies when your child is under age 19 (under age 24 if a full-time student).

We have more planning strategies to save you tax dollars. Contact us for a year-end review.



Can your business survive these seven potential disasters?

Disasters, natural or otherwise, could ultimately lead to your company's demise. Fortunately, advance planning can keep you on track. Here are seven scenarios to be prepared for.

A natural disaster. To paraphrase the old saying, you can talk about the weather, but there's not much you can do about it – except have a plan in place in the event a natural disaster damages your business premises. Two tips: Maintain adequate insurance and store valuable business data at a secure off-location site.

A key employee quits. Cross-training can avoid business interruptions if a key employee leaves unexpectedly. You might also want to consider asking key employees to sign a reasonable non-compete agreement to protect confidential information. Typically, these agreements prohibit an employee from working for a competitor for a certain period.

An employee embezzles company funds. To safeguard your business assets, divide responsibilities so one person doesn't have complete control over the books. Set up a system of checks and balances.

Your biggest customer leaves. To keep your business from going under, update your marketing

plan, stay in touch with former customers, establish an emergency budget, and diversify your revenue stream.

You become disabled. "Key-person" disability insurance can provide funding to keep your business afloat. The policy may also cover employees who are vital to operations.

Your company or partnership splits up. Draft a buy-sell agreement to ensure a smooth transition due to the sale of a business interest, including a forced sale on the death of one of your shareholders or partners. The agreement can establish the terms of a buy-out and set a value for the respective business interests.

Your computer system crashes. Extra hardware, such as tablets or laptops, regular off-site backups, and cloud storage for important documents can avoid a crisis when your computer fails.

Insurance enrollment begins this month

Beginning this month, you can sign up for a new 2017 health insurance policy on the health insurance Marketplace. You can also change or renew the policy you purchased during the last enrollment period. Even if your current policy has an automatic renewal feature, you'll want to verify that you're getting the best deal, and that you are still eligible for the federal premium tax credit.

What if you didn't sign up last winter and didn't have health insurance coverage in 2016? You may owe a

penalty on your 2016 federal income tax return. The penalty is calculated in one of two ways: as a percentage of your income, or on a per-person basis. You pay whichever is higher.

For 2016, the penalty is 2.5% of your annual household income, up to a maximum of the national average premium for a Bronze plan. The per-person penalty is \$695 per adult and \$347.50 per child under 18 (up to a maximum per-family penalty of \$2,085).

Plan ahead for year-end business tax savings

As the end of the year approaches, turn your attention to ways you can reduce your 2016 tax liability. Here are suggestions.

- **Business equipment.** Take advantage of end-of-year sales on business equipment. For 2016, a maximum Section 179 deduction of \$500,000 and 50% bonus depreciation are generally available for qualified property placed in service anytime during the year. Be aware that special limits apply to vehicles.
- **Business trips.** When you travel to wrap up year-end business deals, you can write off your expenses – including airfare, lodging, and 50% of the cost of meals – if the primary motive of the trip is business-related. Costs attributable to personal side trips are nondeductible. If you travel by car, deduct actual business-related auto costs or a flat rate of 54 cents per mile (plus tolls and parking fees).
- **Entertainment and meals.** Generally, you can deduct 50% of the cost of entertainment and meals that precede or follow a “substantial business discussion.” For example, you might treat a client to dinner and drinks after completing a contract earlier in the day. In this case, you can include 50% of the expenses for the client and yourself, as well as for spouses and significant others.
- **Company outings.** Generally, deductions for business entertainment and meals are limited to 50% of the cost. However, if you throw a company-wide holiday party before year-end, you might be able to deduct 100% of the cost when you meet certain requirements, such as inviting your entire staff.
- **Hire your child.** Does your teenaged child want a job to help pay for holiday gifts? If you hire your child, reasonable wages paid for actual services rendered are deductible, the same as wages of other employees. The wages will be taxable to your child at your child’s tax rate, which may be lower than your rate or that of your business.
- **Job credits.** When your business hires workers from certain “targeted groups,” such as veterans and food stamp recipients, you may be able to claim the Work Opportunity Tax Credit. The maximum credit is generally \$2,400 per qualified worker.

Smart financial decisions are simple, but not easy

Seeing purchases your friends post on social media can leave you envious – and might also foster a desire to buy a similar item. That can be a problem if your goal is long-term financial freedom, because spending money on items you may not need can derail your plans. Three simple habits can help you stay on track.

 **Live below your means.** Living below your means requires that you discover what those “means” are. To find out, use a budget app, an online financial site, or old-school pencil and paper to track your income and expenses over a month or more. You’ll learn how much disposable income you receive and what your spending

habits are, and you might be surprised at how your money habits hurt your finances. By spending less on nonessentials, you’ll be able to save for the future and develop long-term wealth.

 **Save for emergencies.** By setting aside money in easily accessible accounts, you avoid racking up credit card bills when unexpected expenses occur. Such expenses could include your out-of-pocket costs for trips to the emergency room, repairs to the family car, or patching a hole in the roof. A reserve fund can also help you survive periods of unemployment without incurring additional debt.

 **Use debt wisely.** Necessary debt can generally be linked to appreciating assets, such as your home mortgage, or assets used to generate income, such as a basic car for getting to work or school. Unnecessary debt, on the other hand, might include routine credit card charges or installment loans for depreciable items. Ask yourself whether you can pay off new debt from next month’s income.

Stay ahead of the deadline for 2016 required minimum distributions

If you’re over 70½ and are required to take distributions from your IRA or other retirement account, remember that you must take your 2016 required minimum distribution by December 31. Due to year-end holidays and transfer time constraints, getting the process started now can avoid a last-minute rush, as well as a steep penalty of 50% of the amount not taken.

If this year’s distribution is your first, you have a one-time option of waiting until the beginning of April 2017 to start taking withdrawals. Just remember, waiting means you’ll have two taxable distributions next year.

Contact us for details.

Making smart financial decisions isn’t glamorous or easy, and requires more than a little self discipline. Your reward for persevering: substantial long-term benefits. If you’d like additional suggestions for achieving financial freedom, contact our office.

SPOTLIGHT ON INSIGHT

SPOTLIGHT



Daniel Callaghan – Analyst

Daniel Callaghan joined the Insight team in October 2016. Daniel carries a wide breadth of experiences to the Insight team from his previous responsibilities. In 2008 to 2012, Daniel served as a Paratrooper in the US Army

82D Airborne Division, most notably receiving the Bronze Star medal for his role as a Non-commissioned-officer-in-charge for Battalion-level operations in Afghanistan. After his military service, Daniel developed his small business understanding by starting his own small business where he functioned as the managing partner and financial officer from 2012 to 2016.

Daniel grew up in Kalamazoo, Michigan and graduated from Western Michigan University where he earned his Master's degree in Accountancy. He is passionate about high-quality business accounting, sound personal finance and investing, and continually pursuing greater knowledge of these subjects. Daniel's passions are illustrated by developing new ideas through collaboration, setting high standards, and achieving excellence with teammates.

Indiana CPA Day of Service

This year the Insight team volunteered at the Potawatomi Conservatory. The day was spent clearing out and preparing a greenhouse for use by the community, and sprucing up the desert room by pulling weeds around hundreds of cacti.



OUR SOUTH BEND OFFICE HAS MOVED
THE NEW ADDRESS IS 3830 EDISON LAKES PARKWAY, MISHAWAKA, IN 46545
Phone number remains 574-288-4801
Please plan to attend our open house on November 30 from 3:00 – 7:00 PM.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.