Spring & Co.
CERTIFIED PUBLIC ACCOUNTANTS

Tax & Business Alert

JANUARY 2017

DAFs BRING AN INVESTMENT ANGLE TO CHARITABLE GIVING

If you're planning to make significant charitable donations in the coming year, consider a donor-advised fund (DAF). These accounts allow you to take a charitable income tax deduction immediately, while deferring decisions about how much to give — and to whom — until the time is right.

ACCOUNT ATTRIBUTES

A DAF is a tax-advantaged investment account administered by a not-for-profit "sponsoring organization," such as a community foundation or the charitable arm of a financial services firm. Contributions are treated as gifts to a Section 501(c)(3) public charity, which are deductible up to 50% of adjusted gross income (AGI) for cash contributions and up to 30% of AGI for contributions of appreciated property (such as stock). Unused deductions may be carried forward for up to five years, and funds grow tax-free until distributed.

Although contributions are irrevocable, you're allowed to give the account a name and recommend how the funds will be invested (among the options offered by the DAF) and distributed to charities over time. You can even name a successor advisor, or prepare written instructions, to recommend investments and charitable gifts after your death.

Technically, a DAF isn't bound to follow your recommendations. But in practice, DAFs almost always respect donors' wishes. Generally, the only time a fund will refuse a donor's request is if the intended recipient isn't a qualified charity.

KEY BENEFITS

As mentioned, DAF owners can immediately deduct contributions but make gifts to charities later. Consider this scenario: Rhonda typically earns around $150,000 in AGI each year. In 2017, however, she sells her business, lifting her income to $5 million for the year.

Rhonda decides to donate $500,000 to charity, but she wants to take some time to investigate charities and spend her charitable dollars wisely. By placing $500,000 in a DAF this year, she can deduct the full amount immediately and decide how to distribute the funds in the coming years. If she waits until next year to make charitable donations, her deduction will be limited to $75,000 per year (50% of her AGI).

Even if you have a particular charity in mind, spreading your donations over several years can be a good strategy. It gives you time to evaluate whether the charity is using the funds responsibly before you make additional gifts. A DAF allows you to adopt this strategy without losing the ability to deduct the full amount in the year when it will do you the most good.

Another key advantage is capital gains avoidance. An effective charitable-giving strategy is to donate appreciated assets — such as securities or real estate. You're entitled to deduct the property's fair market value, and you can avoid the capital gains taxes you would have owed had you sold the property.

But not all charities are equipped to accept and manage this type of donation. Many DAFs, however, have the resources to accept contributions of appreciated assets, liquidate them and then reinvest the proceeds.

REQUIREMENTS AND FEES

A DAF can also help you streamline your estate plan and donate to a charity anonymously. Requirements and fees vary from fund to fund, however. Please contact our firm for help finding one that meets your needs. ■

SLIGHT ADJUSTMENTS: COLA AMOUNTS FOR 2017 RETIREMENT PLANS

The IRS recently issued cost-of-living adjustments (or "COLAs") for 2017. If, like most people, you're funding a retirement plan, it's a good idea to take a look at what's changed and what hasn't.

Elective deferrals to 401(k), 403(b), 457(b)(2) and 457(c)(1) plans will remain the same at $18,000. Likewise, contributions to SIMPLEs stay unchanged at $12,500, and contributions to IRAs remain static at $5,500. Catch-up contributions stay the same, as well — $6,000 for 401(k), 403(b), 457(b)(2) and 457(c)(1) plans; $3,000 for SIMPLEs; and $1,000 for IRAs.

What has changed? The annual benefit for defined benefit plans rises from $210,000 to $215,000. Meanwhile, contributions to defined contribution plans go from $53,000 to $54,000.

Please note: Your modified adjusted gross income (MAGI) may reduce or even eliminate your ability to take advantage of IRAs. Fortunately, IRA-related MAGI phaseout range limits all will increase for 2017. Please contact our firm for these specific amounts.

We can also help you better understand other important COLA amounts — including those related to ordinary-income tax brackets, the alternative minimum tax, education- and child-related breaks, and gift and estate taxes. ■

NEED TO SELL REAL PROPERTY? TRY AN INSTALLMENT SALE

If your company owns real property, or you do so individually, you may not always be able to dispose of it as quickly as you'd like. One avenue for perhaps finding a buyer a little sooner is an installment sale.

BENEFITS AND RISKS

An installment sale occurs when you transfer property in exchange for a promissory note and receive at least one payment after the tax year of the sale. Doing so allows you to receive interest on the full amount of the promissory note, often at a higher rate than you could earn from other investments, while deferring taxes and improving cash flow.

But there may be some disadvantages for sellers. For instance, the buyer may not make all payments and you may have to deal with foreclosure.

METHODOLOGY

You generally must report an installment sale on your tax return under the "installment method." Each installment payment typically consists of interest income, return of your adjusted basis in the property and gain on the sale. For every taxable year in which

Continued on Page 4.

REVIEWING YOUR COMPANY'S INVENTORY OPTIONS FOR BEST RESULTS

Robust cash flow is a must for virtually every kind of business. Yet an improperly or inadequately managed inventory system can drag down your revenues. It's a good idea to regularly review your approach to inventory accounting.

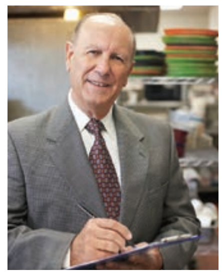
RECONSIDER YOUR APPROACH

Generally, there are two primary inventory accounting methods for both tax accounting and financial accounting. They are:

1. Last in, first out (LIFO). If you tend to retain inventory items (such as repair parts or durable goods) for long periods, LIFO may be your best choice. It allows you to allocate the most recent (and, therefore, higher) costs first, ideally maximizing your cost of goods sold and minimizing your taxable income.

2. First in, first out (FIFO). This refers to selling the oldest stock first. Generally, FIFO works best with dated goods, perishable items and collectibles. In an inflationary market, this approach usually results in higher income as older purchases with lower costs are included in cost of sales. (In a deflationary market, the opposite generally holds true.)

Of the two, FIFO is used more often because it more genuinely reflects the typical normal flow of goods and is easier to account for than LIFO, which can be highly complex and deals with inventory costs (not the actual inventory) that may be many years old.



If you're dissatisfied with your company's method, you may be able to change it. But doing so is generally not simple. Should a business wish to change its inventory accounting method for tax purposes, it needs to request permission from the IRS. And if it wishes to change for financial accounting purposes, it needs a valid reason. This is why changes in accounting for inventory are not routine.

TEND TO YOUR GARDEN

As you review your inventory accounting, try to drill down and pinpoint as many discrepancies as possible. By identifying the source of accuracy problems, you can figure out the best solutions. After all, your inventory is like a garden. Left untended, it will grow out of control or die on the vine. Manage yours carefully, however, and it should bear profitable fruit. ■

TAX CALENDAR

January 17

- Individual taxpayers' final 2016 estimated tax payment is due.

January 31

- File 2016 Forms W-2 ("Wage and Tax Statement") with the SSA and provide copies to your employees.
- File 2016 Forms 1099-MISC ("Miscellaneous Income") reporting nonemployee compensation payments in box 7 with the IRS and provide copies to recipients.
- Most employers must file Form 941 ("Employer's Quarterly Federal Tax Return") to report Medicare, Social Security and income taxes withheld in the fourth quarter of 2016. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the quarter in full and on time, you have until February 10 to file the return. Employers who have an estimated annual employment tax liability of $1,000 or less may be eligible to file Form 944 ("Employer's Annual Federal Tax Return").
- File Form 940 ("Employer's Annual Federal Unemployment [FUTA] Tax Return") for 2016. If your undeposited tax is $500 or less, you can either pay it with your return or deposit it. If it is more than $500, you must deposit it. However, if you deposited the tax for the year in full and on time, you have until February 10 to file the return.
- File Form 943 ("Employer's Annual Federal Tax Return for Agricultural Employees") to report Social Security, Medicare and withheld income taxes for 2016. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 10 to file the return.
- File Form 945 ("Annual Return of Withheld Federal Income Tax") for 2016 to report income tax withheld on all nonpayroll items, including backup withholding and withholding on accounts such as pensions, annuities and IRAs. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 10 to file the return.

February 28

- File 2016 Forms 1099-MISC with the IRS and provide copies to recipients. (Note that Forms 1099-MISC reporting nonemployee compensation in box 7 must be filed by Jan. 31, beginning with 2016 forms filed in 2017.)

March 15

- 2016 tax returns must be filed or extended for calendar-year partnerships and S corporations. If the return is not extended, this is also the last day to make 2016 contributions to pension and profit-sharing plans.

Continued from Page 2.

you receive an installment payment, you must report as income the interest and gain components.

Calculating taxable gain involves multiplying the amount of payments, excluding interest, received in the taxable year by the gross profit ratio for the sale. The gross profit ratio is equal to the gross profit (the selling price less your adjusted basis) divided by the total contract price (the selling price less any qualifying indebtedness — mortgages, debts and other liabilities assumed or taken by the buyer — that doesn't exceed your basis).

The selling price includes the money and the fair market value of any other property you received for the sale of the property, selling expenses paid by the buyer and existing debt encumbering the property (regardless of whether the buyer assumes personal liability for it).

You may be considered to have received a taxable payment even if the buyer doesn't pay you directly.

If the buyer assumes or pays any of your debts or expenses, it could be deemed a payment in the year of the sale. In many cases, though, the buyer's assumption of your debt is treated as a recovery of your basis, rather than a payment.

COMPLEX RULES

The rules of installment sales are complex. Please contact us to discuss this strategy further. ■