ClientLine®

September 2016

New OVERTIME RULES

A recently issued final rule from the U.S. Department of Labor increases the salary threshold under which most salaried workers are eligible for overtime pay when they work more than 40 hours a week. The rule will take effect on December 1, 2016.

The rule essentially doubles the threshold, raising it from $23,660 annually ($455 per week) to $47,476 ($913 per week). The rule also updates the total annual compensation level above which most white-collar workers will be ineligible for overtime by raising the salary level of a highly compensated employee (HCE) to $134,004 from the current $100,000.

The White House announced that the new rule is expected to extend overtime protections to an additional 4.2 million employees and boost employee wages by $12 billion over the next 10 years.

ADDITIONAL DETAILS

The new rule will:

> Automatically update the salary threshold every three years, beginning January 1, 2020. Each update will raise the standard threshold to the 40th percentile of full-time salaried workers in the lowest wage Census region, estimated to be $51,168 in 2020. The HCE threshold will increase to the 90th percentile of full-time salaried workers nationally, estimated to be $147,524 in 2020.

> Allow employers to count nondiscretionary bonuses, incentive pay, or commissions toward as much as 10% of the salary threshold for non-HCE workers provided these payments are made on at least a quarterly basis.

> Keep in place the "duties test" that determines whether white-collar salaried workers earning more than the salary threshold are ineligible for overtime pay.

EMPLOYER COMPLIANCE

Employers still have flexibility in choosing how they comply with the new rule. Permissible methods of compliance include raising salaries of primarily executive, administrative, or professional workers to at least the new threshold, paying overtime for hours worked in excess of 40 hours per week, or reducing overtime hours.

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Smart Saving

The Coverdell education savings account is a tax-favored option to consider if you want to save for a child's college education or for a child's elementary or secondary school expenses. Up to $2,000 per year can be contributed for any one child.

Contributions accumulate tax deferred at the federal level, and earnings are tax free when used for qualified educational expenses, such as tuition, fees, room and board, and books. However, if withdrawals are made for noneducational expenses, the earnings portion of the withdrawal may be subject to federal income tax and an additional 10% penalty.

Your ability to make the full $2,000 contribution may be limited by your adjusted gross income level. The $2,000 maximum is reduced once adjusted gross income exceeds $95,000 (or $190,000 if married filing jointly).

NET WORTH Know-how

Knowing exactly how much you are worth today is a critical first step in building a financially secure future. Net worth is simply the total value of personal assets minus the outstanding amount of debt and other obligations owed. You are heading in the right direction if you show a positive net worth. And, if you can increase that number from year to year, you'll be moving toward greater financial security.

ADD UP ASSETS

Your assets include what's in your bank accounts, money market funds, certificates of deposit, retirement plans, mutual funds, and other securities. Add in the value of your home and other real estate, business interests, life insurance (cash value), and personal property, such as jewelry, autos, furniture, etc.

SUBTRACT YOUR LIABILITIES

Your liabilities are what you owe on your mortgage, credit card balances, student loans, lines of credit, and other loans. If you owe taxes, include that amount as a liability.

INCREASE YOUR NET WORTH

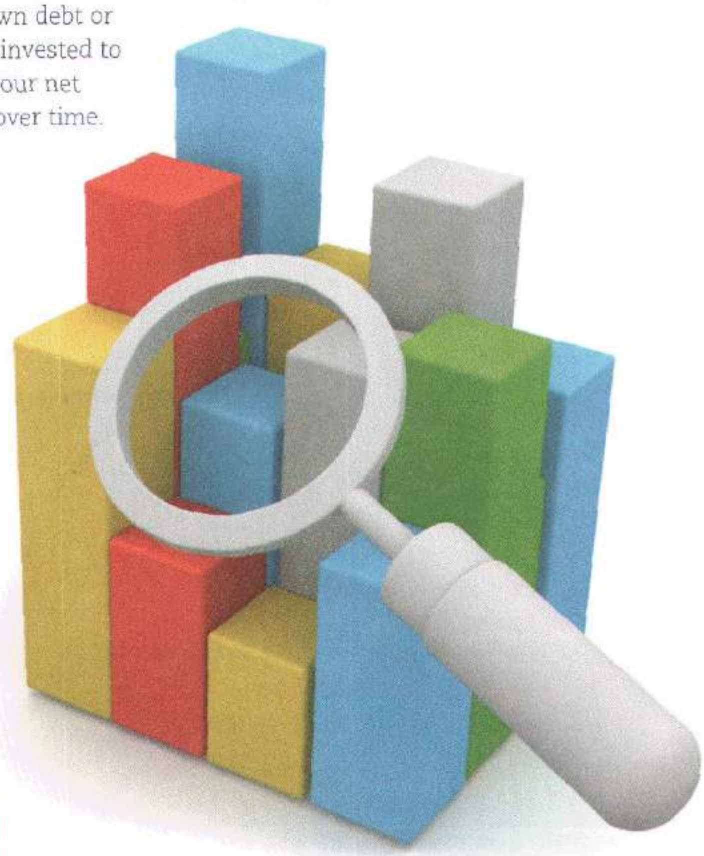
Getting a clear view of your assets and debts can be a wake-up call and can energize you to take the necessary steps to increase your net worth. Here are four steps that can help.

Manage your debt. Boosting net worth is not solely about accumulating assets, it's also about reducing or eliminating debt. A written debt reduction plan can help you focus on this goal. Start by paying off debt with the highest interest rates first and then move on to paying off your other debts. Doing so will give you extra cash for investments that can potentially increase your net worth.

Control spending. Look for places where you can cut back on your spending: eating out, expensive vacations, or a new car every few years. Use the extra money to invest.

Contribute more to your retirement plan. If you have a retirement plan, make an effort to increase your contribution rate. At the very least, contribute enough money to get the full benefit of any matching contributions your employer may offer.

Find additional income. The money you make from a second job, freelance work, or selling items you make can be used to pay down debt or can be invested to boost your net worth over time.



Client PROFILE

Sarah, a self-employed graphic designer, pays quarterly estimated federal income taxes. She wants to make sure her estimates are on target for 2016.

It can be unsettling if you don't know where you stand with your taxes. When Sarah files her taxes next April, she doesn't want to be charged a penalty for underpayment.

If Sarah's quarterly estimated tax payments total at least 90% of her 2016 tax liability, an underpayment penalty generally won't apply. Alternatively, Sarah may base her 2016 estimated taxes on her 2015 tax liability. If she uses this method, she should pay either:

- 100% of the tax shown on her 2015 return if her adjusted gross income (AGI) was $150,000 or less ($75,000 if married filing separately), or
- 110% of the tax shown on her 2015 return if her AGI was more than $150,000 ($75,000).

A tax projection before her next estimated payment is due (September 15) would give Sarah a much clearer picture of where she stands and allow her to make any adjustments in her estimates. A detailed review of her tax situation could also shed light on the ways Sarah might reduce her overall taxes for the year.

Taking the time now to review your tax situation can help ensure that your tax planning is on the right track.

Client Profile is based on a hypothetical situation. The solutions we discuss may or may not be appropriate for you.

HSA LIMITS for 2017

The IRS recently released the 2017 contribution, deductible, and out-of-pocket expense limits for health savings accounts (HSAs).

Generally, individuals eligible to contribute to an HSA must be enrolled in a high-deductible health plan (HDHP) and not covered under any additional health plan.* Additionally, they may not be enrolled in Medicare and cannot be claimed as a dependent of another person for tax purposes. Employers and other individuals may also make contributions to an HSA on behalf of an eligible individual.

* Dental, vision, long-term care, and certain other types of coverage are permitted.

	2017
HSA Contribution Limit (Employer and Employee)	Self-only coverage: $3,400 Family coverage: $6,750
HSA Catch-up Contributions	$1,000
HDHP Minimum Deductibles	Self-only coverage: $1,300 Family coverage: $2,600
HDHP Maximum Out-of-Pocket Amounts	Self-only coverage: $6,550 Family coverage: $13,100

Keeping TRACK

Most ordinary and necessary business expenses are tax deductible. However, business owners should retain the correct documentation to support their deductions in case of an IRS audit.

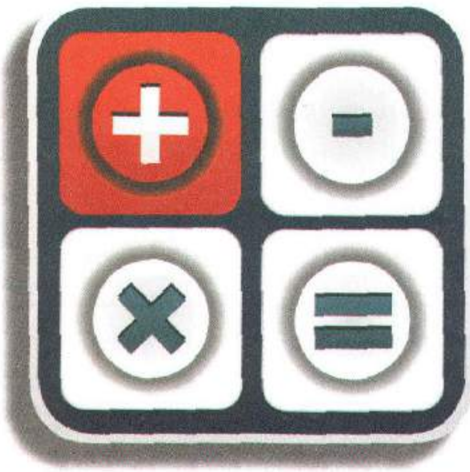
If an audit is conducted, the IRS may require the business owner to show the type of item purchased and evidence that payment was made. Here are some examples of acceptable documentation.

Checks. The IRS will accept a canceled check as proof of payment if it has the name of the payee and shows the cancellation on the back. Highly legible images of checks are also acceptable for businesses that do not receive paper copies of cancelled checks from their financial institution.

Credit/debit card transactions. The IRS will want to see an account statement that shows the amount of the charge, the transaction date, and the name of the payee.

Electronic funds transfers. The business will have to provide an account statement that shows the amount of the transfer, the date the transfer was posted to the account by the financial institution, and the name of the payee.

Invoices. The IRS requires invoices or some other form of documentation showing what was purchased. Canceled checks, credit/debit card statements, and records of electronic funds transfers only provide proof of payment.



Q&A

Q **What's the difference between the cash and the accrual methods of accounting?**

A Generally, cash-based accounting recognizes income when payment is received and recognizes an expense when it is paid. Accrual-based accounting generally recognizes income when goods are shipped or services are rendered and recognizes an expense when the business is obligated to pay it.

Q **I'm divorced and haven't remarried. Can I receive Social Security benefits on my ex-spouse's record?**

A It depends. If you are divorced and your marriage lasted 10 years or more, you can receive benefits on your ex-spouse's record, up to a maximum of 50% of what your ex-spouse would get at full retirement age. However, the benefits do not include any delayed retirement credits your ex-spouse may receive. And there are other qualifications as well. You must be unmarried and age 62 or older, your ex-spouse must be entitled to Social Security retirement or disability benefits, and the benefit you are entitled to receive based on your *own* work history must be less than the benefit you would receive based on your ex-spouse's work. It's complex, and other issues come into play.

ClientLine ITEMS

> GROWING NUMBERS OF WORKERS ARE EXPRESSING SATISFACTION WITH THEIR WORK, according to a report from the Society for Human Resource Management. The report noted that 88% of workers are satisfied with their current jobs, the highest satisfaction level recorded in the last 10 years.

> THE SHARE OF ELIGIBLE MALE WORKERS TURNING AGE 62 AND CLAIMING SOCIAL SECURITY BENEFITS has fallen from 56.0% in 1996 to 35.6% in 2013, according to a study from the Center for Retirement Research at Boston College, using data from the Social Security Administration. The number of women turning age 62 and claiming Social Security benefits fell from 62.8% to 39.5% during the same period. In 2013, 27% of women and 34% of men claimed benefits at their full retirement age.

> THE TYPICAL ORGANIZATION LOSES 5% OF REVENUE TO FRAUD in a given year, concludes the Association of Certified Fraud Examiners in its *2016 Report to the Nations on Occupational Fraud and Abuse*. The report said that asset misappropriation is the most common type of business fraud and causes a median loss of $125,000 per case.

> DATA FROM THE KAISER FAMILY FOUNDATION/HEALTH RESEARCH AND EDUCATIONAL TRUST *2015 Employer Health Benefits Survey* reveals that the average premiums for employer-sponsored family health insurance rose 4% in 2015 to $17,545. Premiums have grown an average of 5% a year since 2005, compared to 11% annually between 1999 and 2005. Since 2010, both the share of workers with deductibles and the size of those deductibles have increased. The result is a 67% increase in the average size of deductibles since 2010.