



Singer, Berger, Press
& Co.

Certified Public Accountants
& Business Consultants

23500 Mercantile Road, Suite A
Beachwood, OH 44122-5927
(216) 595-9400 • Fax: (216) 595-9442

P A R T N E R S

23500 Mercantile Road, Suite A
Beachwood, OH 44122
Tel: (216) 595-9400
Fax: (216) 595-9442

601 South High Street
Columbus, Ohio 43215

Andrew I. Press, Editor
Email: apress@sbp-cpas.com

HOT OFF THE PRESS!

HEALTH INSURANCE COVERAGE NOTICES

As you know, the primary purpose of the Affordable Care Act (also called the Healthcare Act) was to expand access to affordable health coverage. Central to this is the creation of new Insurance Exchanges, which are being referred to as the Health Insurance Marketplace (or the *Marketplace*). The Marketplace is intended to provide a competitive private health insurance market where individuals and employees of small businesses can shop for affordable coverage. Every state will have a Marketplace - some will be run by the state, others by the Federal government or a combination of the two. They are currently being set up and are supposed to be up and running by October 1, 2013.

Open enrollment for health insurance coverage through the Marketplace begins October 1, 2013 for coverage beginning January 1, 2014. Individuals who don't have insurance coverage after 2013 may be subject to a penalty.

Depending on their income, individuals who obtain coverage through the Marketplace may qualify for premium tax credits that immediately reduce the premiums they pay for coverage. They may also be eligible for cost-sharing reductions that reduce the amount they pay out of pocket for medical expenses. However, neither the credit nor cost-sharing reduction is available if the individual's employer offers a health plan with minimum essential coverage that is affordable and meets the minimum value standard. The plan meets the minimum value standard if the plan's share of the total allowed cost of benefits is no less than 60%. Coverage is affordable if the employee's share of the self-only premium for the employer's lowest cost plan doesn't exceed 9.5% of the employee's household income.

To make sure employees have the information they need to allow them access to the benefits offered through the Marketplace, starting October 1, 2013, employers must provide employees written notice of the health coverage it offers along with an explanation of the new Health Insurance Marketplace coverage options. Employees will take this information to the Marketplace when they apply for insurance.

Most employers will be subject to this requirement as it applies to employers covered by the Fair Labor Standards Act (FLSA). In general, the FLSA applies to employers that have (1) one or more employees who are engaged in commerce and (2) gross annual sales of \$500,000 or more.

- **Providing Notice to Employees**

The notice must be provided to all employees, regardless of plan enrollment status (if applicable) or of part-time or full-time status. A separate notice does not need to be given to dependents or other individuals who are or may become eligible for coverage under the plan, but who are not employees.

- **Content of the Notice**

The notice must include specific information. The DOL has provided two Model Notices (one for employers offering insurance coverage to employees, the other for employers not offering coverage) that may be used to meet these requirements. The model notices are on the DOL website at www.dol.gov. You can find them by searching for “health insurance coverage options.”

- **Timing and Delivery of the Notice**

The notice must be provided in writing by first-class mail or, if certain requirements are met, it can be delivered electronically. It must be provided by October 1, 2013 to employees hired before that date. Employees hired after September 30, 2013, must be given the notice at the time of hiring.

YOUR CHILDREN, YOUR BUSINESS

One unique aspect of owning your business is the ability to hire your children. Whether doing so makes sense for you and your business is more than a business decision. For your children, the answer depends a great deal on your intentions for passing the business to future generations, the child’s interest and aptitude, and your feelings about how much a parent should “help” a child and how much they should “make it on their own.” However, some real benefits are available when you employ your children.

- **Reducing Income Taxes.** Usually, children (especially minors) are subject to lower tax rates than their parents. In this case, shifting taxable income away from the parents and to their children is an effective way to lower the family’s tax burden. Although the “Kiddie Tax,” potentially taxes the unearned income of children under age 24 at their parent’s marginal rate, wages are earned income, so they are not subject to the Kiddie Tax. Also, dependents usually are limited to a standard deduction of \$1,000 (for 2013). However, the standard deduction for a dependent with earned income equals his or her earned income plus \$350 (up to \$6,100 for 2013). Thus, up to \$6,100 of earned income can be completely sheltered from tax. And, the next \$8,925 of wages will be taxed at only 10%.
- **Funding an IRA for Your Children.** Paying a child wages means an IRA can be funded for that child (the funds can actually come from you as a gift). Thus, paying your child wages of \$5,500 this year will allow the maximum amount to be contributed to your child’s traditional or Roth IRA. However, as a Roth IRA potentially allows all earnings to be tax-free, it may be the best option if your child has a low current tax rate, a long horizon for saving, and will likely be in a higher tax bracket when distributions are made. It may also be a good way to fund some college costs, as distributions are tax free up to the amount of contributions that have been made to it. In any case, the ability to compound income either tax-deferred or tax-free for many years is a powerful way to build wealth.
- **Reducing Payroll and SE Taxes.** If your business is operated as a sole proprietorship (or partnership where you and your spouse are the only partners), employing your children under age 21 can reduce payroll taxes. This is because wages paid to a child under age 21 are exempt from the FUTA tax. They are also exempt from FICA tax if the child is under age 18. Furthermore, the wages reduce your self-employment (SE) income and, thus, reduce SE tax. (This exemption doesn’t apply if your business is operated as a C or S corporation, or as a partnership with partners other than your spouse.)

- **Executing a Business Succession Plan.** It's never too early to start planning to transition ownership of your business to the next generation. The business' continued success depends on the existence of a capable and experienced successor to the owner. Furthermore, it's important for your key employees to be confident in the abilities of your successor. Thus, if your children are your intended successors, it is critical that they become involved in the business several years before the ownership transition is made.

Wages paid to your child should be comparable to what would be paid to a nonfamily member for the same work; otherwise, the IRS is likely to question them. Also, the tasks performed should be reasonable for your child's age and skill level. While 12-year-olds or 13-year-olds can likely work a few hours a week, it's probably not realistic to pay them more than minimum wage. Older children could likely be expected to work more hours and command a higher wage. However, fair labor laws must be considered.

Employing your family members can have many benefits other than those we've described. Often, working together in the family business strengthens the family bond. Of course, aspects such as wanting children to learn to work for an unrelated employer and the reality of spending a great deal of time together also come into play. In many situations, employing family members makes good tax and business sense. Please call if you would like to discuss any of these matters at greater length.

NEW ASSET PROTECTION OPPORTUNITIES IN OHIO: THE OHIO LEGACY TRUST

With the enactment of the Ohio Asset Management Modernization Act, effective March 27, 2013, Ohio joined the ranks of the nation's top asset protection jurisdictions. A key feature of the Act is the Ohio Legacy Trust, which allows an individual to create a trust of which they are a beneficiary while at the same time protecting the trust assets from potential future creditors. This represents a big change from the common law rule; under which creditor protection was not available for self-settled trusts.

The person setting up the trust is able to retain many benefits from the assets transferred to the trust, including the ability to receive income and principal distributions, the right to direct the Trustee to distribute trust assets to or for the benefit of another, and the ability to remove the Trustee or any advisor to the Trustee and select their replacements.

Who will want to consider setting up a Legacy Trust? Owners of closely held businesses and majority shareholders in closely held corporations may want to consider them, as will those in occupations or professions with significant levels of risk. In addition, the Legacy Trust offers important benefits to individuals contemplating marriage who would like an added level of divorce protection from the claims of future spouses.

Interested in learning more about the role the Ohio Legacy Trust and other asset protection strategies and how they might assist you in planning? Contact the source of the information for this article, and a good friend of the Firm, Marcia J. Wexberg, Chair, Estate and Succession Planning Group at Calfee Halter & Griswold LLP, mwexberg@calfee.com.

INHERITED IRA DISTRIBUTIONS-TAX IMPACT

These days, it is increasingly common for individuals to inherit IRAs. By inheriting an IRA, we mean you become entitled to some or all of the balance in a deceased account owner's traditional IRA or Roth IRA by virtue of being designated as an account beneficiary.

In this scenario, you may think your share of the inherited IRA balance can be distributed to you and then rolled over tax-free into your own IRA before the familiar 60-day deadline for rollovers has passed. While this seems like a very reasonable assumption, it is wrong - unless you are the deceased IRA owner's surviving spouse. Only a surviving spouse is allowed to roll over a distribution from an inherited IRA into his or her own IRA. Nobody else can.

Fortunately, there are ways to finesse the “no-rollover-allowed rule” so that you can take control of your share of an inherited IRA without adverse tax consequences. However, to make this work, you must follow some important rules, one of which is that you cannot receive a distribution check payable to you personally from the inherited IRA. If you do so and are not the deceased IRA owner’s surviving spouse, you can’t put the money back into an IRA and continue earning tax-deferred income (or possibly tax-free income in the case of an inherited Roth IRA). Furthermore, if you know the distribution is from an inherited *traditional IRA* and you are not the deceased IRA owner’s surviving spouse, you must include it in your taxable income. Depending on the circumstances, a distribution from a Roth IRA may result in taxable income to you as well.

THANK YOU

With the completion of your 2012 return behind us, we want to thank you for your reliance on our tax services. It seems legislation affecting the Tax Code has become a common event. This year is certainly no exception. In fact, Congress kicked off the year by passing the American Taxpayer Relief Act of 2012 (better known as the fiscal cliff legislation) on New Year’s Day. The fiscal cliff legislation canceled most income tax increases scheduled to take place in 2013 and made permanent or extended many popular tax breaks. However, starting in 2013, higher-income individuals will face higher taxes - thanks to provisions in the fiscal cliff legislation, as well as a couple of tax provisions of the 2010 Health Care Reform legislation that will take effect in 2013. More legislation is possible this year as the topic of “Tax Reform” continues to be discussed in Washington. However, continued sparing between parties may make passage impossible this year. Of course, with tax legislation, nothing is certain.

Our firm is honored you have trusted us to handle your tax matters. As major developments and opportunities emerge, we are available to discuss the impact on your personal or business situation. In addition, to meet our commitment to you, we are constantly trying to identify ways to improve the quality of the services we offer. To help us in this process, please take a few moments to email us with your comments (c/o the editor). Please be candid. We value our relationship with you, and your comments are important to us. (All responses will be kept confidential.) Also, we are honored when clients refer others to us for assistance.

NEWS AND NOTES . . .

The purpose of this column is to keep you informed of happenings within the office and with our friends. If you have any items you would like to contribute, contact the editor.

. . . Congratulations to **Virginia "Gigi" Benjamin** of Calfee, Halter & Griswold LLP on her recognition by the YWCA of Greater Cleveland as one of their "2013 Women of Achievement". **Gigi** is head of the Firm's public law and financial practice group. . .

. . . **Christine Bretz** spoke at the Small Business Workshop sponsored by Park View Federal on the topic of "Taxes and Technology" . . . **Christine** also will be speaking to the Financial Executives Networking Group in July on *Tax Planning for Small Businesses* . . . Looking for a speaker, we are available for presentations to business groups, trade associations, networking groups on topics related to accounting, financial and taxes planning. . .

. . . Also, congratulations to **Jacqui Fernkorn** who has put up with us for 25 years!

NOTE FROM THE EDITOR

If you are receiving this newsletter in hardcopy form and would like to receive it via email, along with updates issued during the year, email us your address at apress@sbp-cpas.com

BUSINESS IS GREAT . . . AND WE ARE LOOKING FOR MORE!

P A R T N E R S is published periodically by Singer, Berger, Press & Co. The information contained is of general and condensed nature. Since it may change due to new developments, obtain specific advice regarding your situation before taking action.
