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MARCH 2017

NEW CPAS

JENNIFER BROSIUS TURNER **JONATHAN B. WEST**

We were very pleased to learn that Jennifer Turner and Jonathan West have successfully completed the CPA exam.

Jennifer interned with the firm while at Louisiana State University-Shreveport and joined the firm on July 1, 2013.

Jonathan joined the firm on June 1, 2016 after having interned with us prior to graduating from Louisiana Tech University. Notably, Jonathan passed the CPA exam on his first attempt.

We are very happy for Jennifer and Jonathan and feel very fortunate to have their services.

BUFFETT'S BET
(HIS LESSON ON INVESTMENT WISDOM)

As some of you might recall, nine years ago Warren Buffett made a charitable contribution bet with Ted Siedes, an asset manager of Protégé Partners. Mr. Siedes was the only investment professional accepting Mr. Buffett's offer to bet. Mr. Buffett's offer was that no investment professional could outperform the Vanguard S&P 500 Index Fund over a 10-year period. Nine years have now passed and the nine-year interim results are in. After all fees and expenses, but before income taxes, the Vanguard S&P 500 Index Fund has returned 7.1 percent annually and the active asset managers (more than 100 hedge funds selected by Mr. Siedes) returned an average of 2.2 percent annually. In other words, the investment return on $1 million in Mr. Buffett's suggested Vanguard Index 500 Fund has produced a pre-tax gain of $854,000 compared to $220,000 for the actively managed portfolio of over 100 hedge funds selected by Mr. Siedes. Active management results in current taxation (largely at ordinary income and short-term capital gains rates) while a passive index fund results in current taxation of only the dividend portion (at favorable rates) of the total return. Thus, the major part (capital appreciation) of the return on passive index investing is tax deferred and, if held to death (or the death of a community property spouse), never subjected to income taxation. If the results of "Buffett's Bet" were adjusted for current taxation, the overperformance by the S&P Index Fund (3.9 to 1) would increase dramatically – probably to more than 5 to 1.

Some comments from Mr. Buffett's 2016 letter to Berkshire-Hathaway shareholders follow.

<u>Buffett on Index Funds</u>

"The bottom line: When trillions of dollars are managed by Wall Streeters charging high fees, it will usually be the managers who reap outsized profits, not the clients. Both large and small investors should stick with low-cost index funds."

<u>Buffett on Vanguard Funds Founder (and Retired Chief Executive) John Bogle</u>

"If a statue is ever erected to honor the person who has done the most for American investors, the hands-down choice should be Jack

(Continued on reverse)

Bogle. For decades, Jack has urged investors to invest in ultra-low-cost index funds. In his crusade, he amassed only a tiny percentage of the wealth that has typically flowed to managers who have promised their investors large rewards while delivering them nothing… of added value.

In his early years, Jack was frequently mocked by the investment-management industry. Today, however, he has the satisfaction of knowing that he helped millions of investors realize far better returns on their savings than they otherwise would have earned. He is a hero to them and to me."

Buffett on His Investment Advice and Its Acceptance

"Over the years, I've often been asked for investment advice, and in the process of answering I've learned a good deal about human behavior. My regular recommendation has been a low-cost S&P 500 index fund. To their credit, my friends who possess only modest means have usually followed my suggestion.

I believe, however, that *none* of the mega-rich individuals, institutions or pension funds has followed that same advice when I've given it to them. Instead, these investors politely thank me for my thoughts and depart to listen to the siren song of the high-fee manager or, in the case of many institutions, to seek out another breed of hyper-helper called a consultant.

That professional, however faces a problem. Can you imagine an investment consultant telling clients, year after year, to keep adding to an index fund replicating the S&P 500? That would be career suicide. Large fees flow to these hyper-helpers, however, if they recommend small managerial shifts every year or so. That advice is often delivered in esoteric gibberish that explains why fashionable investment "styles" or current economic trends make the shift appropriate.

The wealthy are accustomed to feeling that it is their lot in life to get the best food, schooling, entertainment, housing, plastic surgery, sports ticket, you name it. Their money, they feel, should buy them something superior compared to what the masses receive.

In many aspects of life, indeed, wealth does command top-grade products or services. For that reason, the financial "elites" – wealthy individuals, pension funds, college endowments and the like – have great trouble meekly signing up for a financial product or service that is available as well to people investing only a few thousand dollars. This reluctance of the rich normally prevails even though the product at issue is – on an expectancy basis – clearly the best choice."

Buffett Repeating an Old Adage

"When a person with money meets a person with experience, the one with experience ends up with the money and the one with the money leaves with experience."

Reminders
March 15, and April 18, 2017

Our early spring "green up" reminds us that the March 15th and April 18th tax due dates are close at hand. The due date for the income tax returns of limited liabilities companies (LLCs) and partnerships is now March 15th (the same as for corporations electing subchapter S status) having been changed effective for 2016 returns from April 15th. The due date of federal individual returns is unchanged. As a result of weekends and holidays, individual 2016 returns will be due, without extension, on Tuesday, April 18, 2017.

Extensions granting an additional six months for filing are available for all these returns. Generally, subchapter S corporations do not incur federal income taxes. Partnerships and LLCs (unless they elect to be taxed as a corporation) do not incur income taxes. Accordingly, their returns can generally be extended without estimating the tax due. However there is no extension of time to pay taxes. Accordingly, to avoid the imposition of a late payment penalty, individual 2016 extensions require an estimate of the 2016 tax and the payment of any remaining unpaid balance by April 18, 2017.

Tax Return Data – Soon. As always, tax preparers will appreciate and benefit from

(Continued on page 3)

receiving complete (or nearly complete) individual income tax data as early as possible. Early receipt of all data (or all but a missing Schedule K-1, etc.) allows time for more thoughtful preparation and diminishes the hazards of the rush to completion of the last days of the season. Many taxpayers with complex returns, brokerage accounts with histories of corrected information forms, late K-1s, etc. will be well served by an extension of time to file until October 16. Extensions of time to file do not, in our experience, prejudice the return in any way. An extension, however, does not extend the time to pay. Accordingly, early submission of the data for the computation of estimated amount to be paid, if any, with the automatic extension will be helpful. For most individual income tax returns, the furnishing of all or almost all of the data by March 15 will allow the orderly preparation of a well-considered return. In instances where almost all of the data is not available by mid-March and for most very complex returns, automatic extensions are often the best choice.

IRA and HSA Contributions – April 18, 2017. Taxpayers making individual retirement account (Roth IRA and traditional IRA) or health savings account (HSA) contributions for 2016 and who have not already done so will need to make the contributions on or before April 18, 2017. April 18, 2017 is the last available date for a 2016 contribution even if the taxpayer obtains an extension of time to file the 2016 individual income tax return.

The maximum contribution to an IRA (Roth or traditional) for 2016 is $5,500 for those below age 50 and $6,500 for those age 50 or above at December 31, 2016. We, of course, encourage early contributions to tax-deferred accounts for those certain of their eligibility. For 2017, the maximum IRA contributions are unchanged.

The maximum HSA contribution for a single person for 2016 is $3,350 and for a family is $6,750. Those 55 or older can add, for 2016, an additional $1,000. For 2017, the maximum for a single person increases $50 to $3,400 but, for a family remains at $6,750. For those 55 and over, the 2017 limits are increased by $1,000 for both single and family.

Charitable Contribution Receipt – Return Due Date. Please remember that taxpayers with charitable contributions should be sure to obtain properly worded receipts for contributions (cash, check or property) of $250 or more before the due date of their federal return. The written acknowledgement must state whether the organization provided any goods or services in consideration for the contribution.

Qualified Plan Distribution – April 1, 2017. Participants in qualified retirement plans, tax-sheltered annuities, or IRAs (other than Roth IRAs) are generally required to begin withdrawals of minimum annual amounts from the plan by April 1 following the year in which they reach age 70½. This rule generally applies to all such tax-favored plans. Individuals who are still employed at age 70½ and are not five percent owners of their employer, however, are not required to begin receiving distributions from their employer's qualified plan until April 1 following the year in which they terminate employment. Distributions from traditional IRA accounts must begin by April 1 following the year in which the account holder attains age 70½. Distributions are not required from Roth IRAs until after the death of the owner.

Although the first required distribution may be deferred until April 1 of the year following the year in which the account owner becomes 70½, it is likely that the distribution should be taken in the year of becoming age 70½ to avoid taxing two years' distributions in one year, possibly causing the recipient to be in a higher tax bracket or become subject to increased phase-outs of deductions, credits, etc.

LOUISIANA WORKFORCE COMMISSION

ERRONEOUS DELINQUENT TAX NOTICES

We understand from the Louisiana Workforce Commission that it has erroneously mailed delinquent tax notices to households/annual filers of unemployment tax returns as a result of the Commission's computer programming error. The Commission is aware of the error and has informed us that the notices do not require a response and should be disregarded.

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Tax & Business Alert

MARCH 2017

GOT NEXUS? FIND OUT BEFORE OPERATING IN MULTIPLE STATES

For many years, business owners had to ask themselves one question when it came to facing taxation in another state: Do we have "nexus"? This term indicates a business presence in a given state that's substantial enough to trigger the state's tax rules and obligations.

Well, the question still stands. And if you're considering operating your business in multiple states, or are already doing so, it's worth reviewing the concept of nexus and its tax impact on your company.

COMMON CRITERIA

Precisely what activates nexus in a given state depends on that state's chosen criteria. Triggers can vary but common criteria include:

- Employing workers in the state,
- Owning (or, in some cases, even leasing) property there,
- Marketing your products or services in the state,
- Maintaining a substantial amount of inventory there, and
- Using a local telephone number.

Then again, one generally can't say that nexus has a "hair trigger." A minimal amount of business activity in a given state probably won't create tax liability there.

For example, an HVAC company that makes a few tech calls a year across state lines probably wouldn't be taxed in that state. Or let's say you ask a salesperson to travel to another state to establish relationships or gauge interest. As long as he or she doesn't close any sales, and you have no other activity in the state, you likely won't have nexus.

STRATEGIC MOVES

As with many tax issues, the totality of facts and circumstances will determine whether you have nexus in a state. So it's important to make assumptions either way. The tax impact could be significant, and

SERVICE COMPANIES, BEWARE OF MARKET-BASED SOURCING

Nexus has been and remains the primary focus of companies considering whether and how they'd be taxed across state lines. (See main article.) But, recently, many states have established "market-based sourcing" for determining the tax liability of *service* companies that operate within their borders.

Under this approach, if the benefits of a service occur and will be used in another state, that state will tax the revenue gained from said service. "Service revenue" generally is defined as revenue from *intangible* assets — not the sales of tangible personal property.

Thus, in market-based sourcing states, the destination state of a service is the relevant taxation factor rather than the state in which the income-producing activity is performed (also known as the "cost of performance" method).

its specifics will vary widely depending on just how the state in question approaches taxation.

For starters, strongly consider conducting a nexus study. This is a systematic approach to identifying the out-of-state taxes to which your business activities may expose you. The results of a nexus study may not necessarily be negative. You may find that your company's overall tax liability is lower in a neighboring state. In such cases, it may be advantageous to create nexus in that state by, say, setting up a small office there. If all goes well, you may be able to allocate some income to that state and lower your tax bill.

TAXATION AND PROFITABILITY

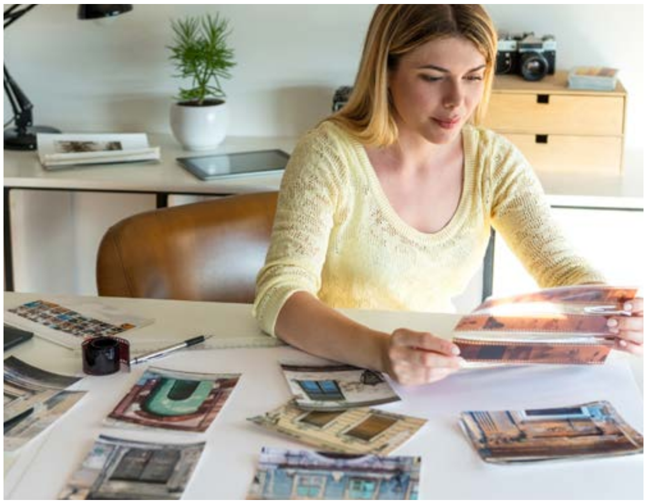
"The grass is always greener on the other side of the fence," so the saying goes. If profitability beckons in another state, please contact our firm for help projecting how setting up shop there might affect your tax liability. ■

4 TIPS FOR DONATING ARTWORK TO CHARITY

Individuals may want to donate artwork so it can be enjoyed by a wider audience or available for scholarly study or simply to make room for new artwork in their home. Here are four tips for donating artwork with an eye toward tax savings:

1. Get an appraisal. Donations of artwork valued at over $5,000 require a "qualified appraisal" by a "qualified appraiser." IRS rules detail the requirements. In addition, auditors are required to refer all gifts of art valued at $20,000 or more to the agency's Art Advisory Panel. The panel's findings are the IRS's official position on the art's value, so it's critical to provide a solid appraisal to support your valuation.

2. Donate to a public charity. Donations to a qualified public charity (such as a museum or university) potentially entitle you to deduct the artwork's full fair market value. If you donate to a private foundation, your deduction will be limited to your cost. The total amount of charitable donations you may deduct in a given year is limited to a percentage of your adjusted gross income (50% for public charities, 30% for private foundations) with the excess carried forward for up to five years.



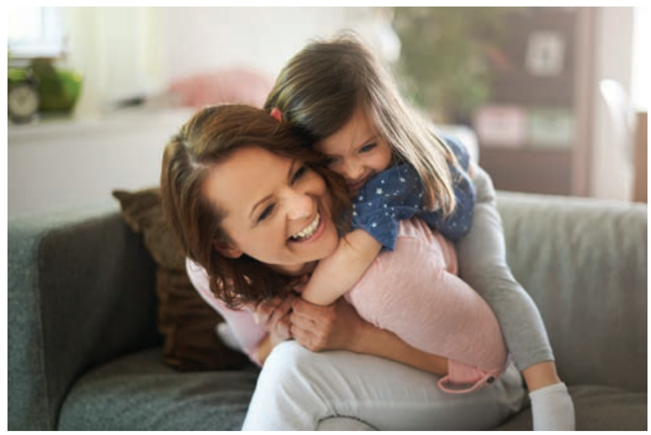
3. Beware the related-use rule. To qualify for a full fair-market-value deduction, the charity's use of the artwork must be related to its tax-exempt purpose. Even if the related-use rule is satisfied initially, you may lose some or all of your deductions if the artwork is worth more than $5,000 and the charity sells or otherwise disposes of it within three years of receipt. If that happens, you may be able to preserve your tax benefits via a certification process. (For further details, please contact us.)

4. Consider a fractional donation. Donating a fractional interest allows you to save tax dollars without completely giving up the artwork. Say you donate a 25% interest in your art collection to a museum for it to display for three months annually. You could then deduct 25% of the collection's fair market value and continue displaying the art in your home or business for most of the year.

The rules for fractional donations, and charitable contributions of artwork in general, can be tricky. Plus, tax law changes affecting deductions may occur in the coming year. Contact our firm for help. ■

IDENTIFYING QUALIFYING CHILDREN FOR TAX PURPOSES

As you file your 2016 income tax return, you may be wondering whether you're eligible for tax breaks related to a niece who lives with you, or perhaps a stepson who spends only part of the year in your home. It all depends on whether, for federal tax purposes, that person is your "qualifying child."



WIDELY APPLICABLE

In an effort to simplify the tax code and eliminate confusion, Congress established a uniform definition of "qualifying child" as part of the Working Families Tax Relief Act of 2004. The definition applies for purposes of several child-related tax benefits, such as:

- Dependency exemptions,
- The child tax credit,
- The child and dependent care credit, and
- Head-of-household filing status.

The definition relies on residency rather than requiring that you have provided more than half of a dependent's support, as was the case years ago.

4 TESTS TO PASS

More specifically, a qualifying child must meet four tests:

1. Relationship. The definition applies to your child (including one who's adopted or who's an eligible foster child), stepchild, brother, sister, stepbrother or stepsister. It also includes any of their descendants. So, for example, your grandchildren, nieces and nephews also qualify.

2. Age. A child must be under age 13 when the care was provided to qualify for the child and dependent care credit, under age 17 (as of the end of the year) for the child credit and under age 19 (age 24 for a full-time student) for the other tax benefits. Except for the child credit, there's no age limit for a permanently disabled person.

3. Residence. The child must share your principal place of abode for more than half the year, which includes time spent away from home because of school, military service or illness.

4. Support. It's no longer necessary for you to provide more than half of a child's support. But the qualifying child generally can't provide more than half of his or her own support.

Under the current definition, the child must be a citizen or resident of the United States, Canada or Mexico to qualify. However, if the child files a joint return, he or she won't qualify. If more than one person claims a benefit with respect to the same child, the tax code specifies who's entitled to tax benefits.

If two or more people are eligible to claim the same child as a dependent, they can decide among themselves who will claim the tax benefits. In the event that more than one person actually claims those benefits, there are a variety of rules in place to break the tie.

FURTHER QUESTIONS

As you can see, the Internal Revenue Code recognizes that families take care of each other and not every child claimed in relation to tax benefits will be a biological child. If you have further questions about this topic, please contact our firm. ■

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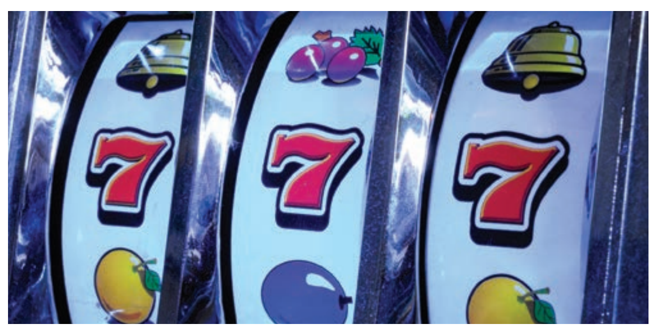
YOU'VE HIT THE JACKPOT! NOW WHAT?

When it comes to financial planning, most of us spend our time guarding against things that could go wrong. But what if something really *good* happens? Hitting the jackpot is obviously a nice problem to have. Yet an unexpected influx of cash can drive even savvy individuals to do regrettable things.

Your first impulse upon experiencing a financial windfall may be to shout about it from the rooftops. But it's likely wiser to lie low and consider your options. A substantial sum of money could compel long-lost acquaintances and family to suddenly get in touch. And let's not even get into the identity theft risks.

Naturally, you'll need to consider the tax ramifications. There's no shortage of cautionary tales about the suddenly rich who've gotten into trouble with the IRS.

There are also family issues to consider. If you have minor children, you may want to establish trusts so that, should something happen to you, their finances will be well managed. Likewise, you may need to establish or rethink your estate plan to preserve family harmony and ensure your wishes are fulfilled after you die.



Reassess your insurance needs, too. Your newfound wealth may make you a bigger target for lawsuits should an accident occur on your property or while you're driving. Ask your insurance agent to review your existing coverage.

If good fortune has smiled upon you, please contact us. We can help ensure you don't underestimate the amount of taxes you'll have to pay, as well as assist you in planning your financial future. ■