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Tax & Business Alert

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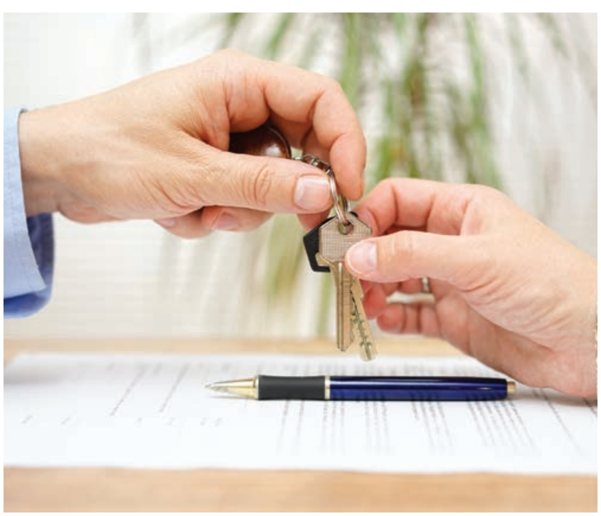
INSTALLMENT SALES: A VIABLE OPTION FOR TRANSFERRING ASSETS

Are you considering transferring real estate, a family business or other assets you expect to appreciate dramatically in the future? If so, an installment sale may be a viable option. Its benefits include the ability to freeze asset values for estate tax purposes and remove future appreciation from your taxable estate.

GIVING AWAY VS. SELLING

From an estate planning perspective, if you have a taxable estate it's usually more advantageous to give property to your children than to sell it to them. By gifting the asset you'll be depleting your estate and thereby reducing potential estate tax liability, whereas in a sale the proceeds generally will be included in your taxable estate.



But an installment sale may be desirable if you've already used up your $11.18 million (for 2018) lifetime gift tax exemption or if your cash flow needs preclude you from giving the property away outright. When you sell property at fair market value to your children or other loved ones rather than gifting it, you avoid gift taxes on the transfer and freeze the property's value for estate tax purposes as of the sale date. All future appreciation benefits the buyer and won't be included in your taxable estate.

Because the transaction is structured as a sale rather than a gift, your buyer must have the financial resources to buy the property. But by using an installment note, the buyer can make the payments over time. Ideally, the purchased property will generate enough income to fund these payments.

ADVANTAGES AND DISADVANTAGES

An advantage of an installment sale is that it gives you the flexibility to design a payment schedule that corresponds with the property's cash flow, as well as with your and your buyer's financial needs. You can arrange for the payments to increase or decrease over time, or even provide for interest-only payments with an end-of-term balloon payment of the principal.

One disadvantage of an installment sale over strategies that involve gifted property is that you'll be subject to tax on any capital gains you recognize from the sale. Fortunately, you can spread this tax liability over the term of the installment note. As of this writing, the long-term capital gains rates are 0%, 15% or 20%, depending on the amount of your net long-term capital gains plus your ordinary income.

Also, you'll have to charge interest on the note and pay ordinary income tax on the interest payments. IRS guidelines provide for a minimum rate of interest that must be paid on the note. On the bright side, any capital gains and ordinary income tax you pay further reduces the size of your taxable estate.

SIMPLE TECHNIQUE, BIG BENEFITS

An installment sale is an approach worth exploring for business owners, real estate investors and others who have gathered high-value assets. It can help keep a family-owned business in the family or otherwise play an important role in your estate plan.

Bear in mind, however, that this simple technique isn't right for everyone. Our firm can review your situation and help you determine whether an installment sale is a wise move for you. ■

HOW TO TRIM THE FAT FROM YOUR INVENTORY

Inventory is expensive, so it needs to be as lean as possible. Here are some ways to trim the fat from your inventory without compromising revenue and customer service.

OBJECTIVE INVENTORY COUNTS

Effective inventory management starts with a physical inventory count. Accuracy is essential to knowing your cost of goods sold — and to identifying and remedying discrepancies between your physical count and perpetual inventory records. A CPA can introduce an element of objectivity to the counting process and help minimize errors.

The next step is to compare your inventory costs to those of other companies in your industry. Trade associations often publish benchmarks for:

- Gross margin [(revenue – cost of sales) / revenue],
- Net profit margin (net income / revenue), and
- Days in inventory (annual revenue / average inventory × 365 days).

Your company should strive to meet — or beat — industry standards. For a retailer or wholesaler, inventory is simply purchased from the manufacturer. But the inventory account is more complicated for manufacturers and construction firms. It's a function of raw materials, labor and overhead costs.

The composition of your company's cost of goods will guide you on where to cut. In a tight labor market, it's hard to reduce labor costs. But it may be possible to renegotiate prices with suppliers.

And don't forget the carrying costs of inventory, such as storage, insurance, obsolescence and pilferage. You can also improve margins by negotiating a net lease for your warehouse, installing antitheft devices or opting for less expensive insurance coverage.

PRODUCT MIX

To cut your days-in-inventory ratio, compute product-by-product margins. Stock more products with high margins and high demand — and less of everything else. Whenever possible, return excessive supplies of slow moving materials or products to your suppliers.

Product mix should be sufficiently broad and in tune with consumer needs. Before cutting back on inventory, you might need to negotiate speedier delivery from suppliers or give suppliers access to your perpetual inventory system. These precautionary measures can help prevent lost sales due to lean inventory.

REALITY CHECK

Often management is so focused on sales, HR issues and product innovation that they lose control over inventory. Contact us for a reality check. ■

LAYING THE GROUNDWORK FOR YOUR 2018 TAX RETURN

The Tax Cuts and Jobs Act (TCJA) made many changes to tax breaks for individuals. Let's look at some specific areas to review as you lay the groundwork for filing your 2018 return.

PERSONAL EXEMPTIONS

For 2018 through 2025, the TCJA suspends personal exemptions. This will substantially increase taxable income for large families. However, enhancements to the standard deduction and child credit, combined with lower tax rates, might mitigate this increase.

STANDARD DEDUCTION

Taxpayers can choose to itemize certain deductions on Schedule A or take the standard deduction based on their filing status instead. Itemizing deductions when the total will be larger than the standard deduction saves tax, but it makes filing more complicated.

The TCJA nearly doubles the standard deduction for 2018 to $12,000 for singles and separate filers, $18,000 for heads of households, and $24,000 for joint filers. (These amounts will be adjusted for inflation for 2019 through 2025.)

For some taxpayers, the increased standard deduction could compensate for the elimination of the exemptions, and perhaps even provide some additional tax savings. But for those with many dependents or who itemize deductions, these changes might result in a higher tax bill — depending in part on the extent to which they can benefit from enhancements to the child credit.

CHILD CREDIT

Credits can be more powerful than exemptions and deductions because they reduce taxes dollar-for-dollar, rather than just reducing the amount of income subject to tax. For 2018 through 2025, the TCJA doubles the child credit to $2,000 per child under age 17.

The new law also makes the child credit available to more families than in the past. For 2018 through 2025, the credit doesn't begin to phase out until adjusted gross income exceeds $400,000 for joint filers or $200,000 for all other filers, compared with the 2017 phaseout thresholds of $110,000 for joint filers, $75,000 for singles and heads of households, and $55,000 for marrieds filing separately. The TCJA also includes, for 2018 through 2025, a $500 tax credit for qualifying dependents other than qualifying children.

ASSESSING THE IMPACT

Many factors will influence the impact of the TCJA on your tax liability for 2018 and beyond. For help assessing the impact on your situation, contact us. ■

TAX CALENDAR

January 15

Individual taxpayers' final 2018 estimated tax payment is due.

January 31

File 2018 Forms W-2 ("Wage and Tax Statement") with the Social Security Administration and provide copies to your employees.

- File 2018 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 2018. 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 11 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 2018. 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 11 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 2018. 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 11 to file the return.
- File Form 945 ("Annual Return of Withheld Federal Income Tax") for 2018 to report income tax withheld on all nonpayroll items, including backup withholding and withholding on pensions, annuities, IRAs, etc. 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 11 to file the return.

February 28

File 2018 Forms 1099-MISC with the IRS.

March 15

2018 tax returns must be filed or extended for calendar-year partnerships and S corporations. If the return isn't extended, this is also the last day for those types of entities to make 2018 contributions to pension and profit-sharing plans.

7 WAYS TO PREVENT ELDER FINANCIAL ABUSE

As tax season ramps up, so do the efforts of scam artists looking to steal people's financial data and money. Such fraudulent activities often target older adults. Whether you're in this age bracket or worry about senior parents and other relatives, here are seven ways to prevent elder financial abuse:

1. Keep both paper and online financial documents in a secure place. Monitor accounts and retain statements.
2. Exercise caution when making financial decisions. If someone exerts pressure or promises unreasonably high or guaranteed returns, walk away.
3. Write checks only to legitimate financial institutions, rather than to a person.
4. Be alert for phony phone calls. The IRS doesn't collect money this way. Another scam involves someone pretending to be a grandchild who's in trouble and needs money. Don't provide confidential information or send money until you can verify the caller's identity.
5. Beware of emails requesting personal data — even if they appear to be from a real financial institution. After all, shouldn't your banker or financial professional already know these things? Ignore contact information provided in the email. Instead, contact the financial institution through a known telephone number.
6. As much as possible, maintain a social network. Criminals target isolated people because often they're less aware of scams and lack trusted confidants.
7. Work only with qualified professionals, including accountants, bankers and attorneys. ■