166 W. University Parkway; Suite B
Tel: (731) 664-7777
Fax: (731) 664-1544
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MARCH 2017

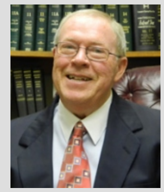
SURVIVING IN A BIG-BOX WORLD

Article courtesy of 2017 Small Business Planner

Giant retailers like Amazon and Wal-Mart may seem unbeatable - but your business can still thrive. Michael Hicks, a professor at Ball State University and author of The Local Economic Impact of Wal-Mart, offers 5 tips to attract customers:

1) Go niche: Big-box retailers offer a handful of options in each narrow category - say, men's t-shirts or kids' bikes. Rather than carrying a shallow selection of everything, go deep on a few categories to attract discerning shoppers.
2.) Take the high (quality) road: Go head-to-head with giant retailers on price and you'll lose. Instead, offer customers the high-quality goods they won't find on Wal-Mart's shelves.
3.) Stress service: "The biggest place that makes a difference for small businesses is customer service: having easily accessible, well-lit changing rooms and sales staff that are knowledgeable about product features and styles," Hicks says.
4. Dabble in delivery: Can't afford to carry an item in every color or size? Have a range of size choices in-store and then make it easy for customers to order what they want, "Merging brick-and-mortar with e-commerce is ahead of the game." Hicks says.
5. Complement to complete: Locating your business within a retail cluster that pops up around megastores can be a boon-especially if you offer products or services not offered at a big-box store. You'll benefit from proximity to plentiful parking and easy access to customers.

Bigger isn't always better. Case in point: Ball Office Products, which has sold office supplies and furniture in Richmond, Va., Since 2000, despite fierce competition from big-box retailers, "It's easy for small businesses to get distracted by what's going on with big-box stores," says owner Melissa Ball, an NFIB member. "But if you spend all your time worrying about how you can be like them, you're going to miss the things that set you apart."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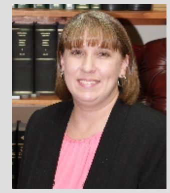
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INSIDE THIS ISSUE

A Tax-Friendly Way to Pay for School

By: Kimberly Lankford, 2/17/2017; Kiplinger Washington Editors

Q. Are there any tax-advantaged ways to save for high school expenses?

A. Yes, a Coverdell education savings account lets you save up to $2,000 per beneficiary each year tax-free if the money is used for education expenses, from kindergarten through college. You can contribute the maximum to a Coverdell if your modified adjusted gross income is less than $95,000 for single filers or $190,000 on a joint tax return (you can make a partial contribution if your income is as high as $110,000 if single or $220,000 on a joint return). You have until April 18, 2017, to contribute for 2016.

For elementary and secondary school, you can withdraw money tax-free not only for tuition and fees but also for books, supplies and equipment, academic tutoring, and services for a special-needs beneficiary. You can also use the money for room and board, uniforms, transportation, and extended day programs if required or provided by the school. Coverdell money can also be used tax-free for a computer, related equipment and internet access for the student.

The beneficiary must be younger than 18 when you make the contributions and must use the money before age 30. You can contribute to a Coverdell ESA even if you're also contributing to a 529 college-savings account. If the child doesn't use the money, you can choose another family member as the beneficiary.

Eligible expenses for college costs are similar to those for 529s, including tuition, fees, books, supplies and equipment, as well as a computer, software and internet access used by the student. Expenses for room and board count for college students who are enrolled at least half-time - up to the amount they pay to live on campus, or up to the amount the college counts in the cost of attendance for financial aid purposes if they live off-campus (this number may be listed on the college's Web site, or you can get it from the college's financial aid office).

6 Tax-Efficient Strategies to Keep More of Your Money in Retirement

By: Chris Heerlein, February 2017; Kiplinger Washington Editors

Too many retirement-minded individuals focus on profits when what they really should be paying attention to is the bottom line. People need to craft a strategy on how to help keep their hard-earned dollars, instead of worrying solely about returns. It's something many people have never considered: Just by holding onto more of your hard-earned income, you could see a dramatic jump in your lifestyle and financial security.

Many people have done a great job of saving and paying off their debts. But they've forgotten about taxes. When it comes to 401(k)s and IRAs, many likely have not paid a dime of taxes, and the government will always want its share. Thanks to Social Security and required minimum distributions, some people find themselves jumping into in a higher tax bracket once they retire. Besides that, with their children now grown up and their house paid off, they probably won't have as many deductions.

Despite what you often hear, it is possible that you could have more control over your taxes and savings in retirement than at any other time in your life.

There are options to avoid taking a significant tax hit, and it's never too late to begin implementing valuable strategies available under today's tax laws. Here are some tactics to help you avoid paying extra to the tax man when you retire.

1. Reverse Rollovers.

As we all know, Americans are living longer, and some of us may choose to work into our 70s. In many cases, individuals can avoid taking a tax hit from required minimum distributions that come knocking at age 70½ with a reverse rollover from their IRAs. If you are still working, you more than likely won't need the income from the IRA. It is possible that you could move your IRA accounts into your current employer's 401(k) or 403(b), although this depends on how your company has set it up. Every plan has its rules, and not all plans allow for this rollover. But, when allowed, this is a great strategy for some individuals to avoid or possibly reduce taxes, as you don't have to take required minimum distributions from your current 401(k) as long as you are employed. One major caveat: You cannot own 5% or more of the company that provides the 401(k) to enjoy this benefit.

2. Qualified Charitable Distributions (QCD).

A highly underutilized benefit. Once over age 70½, you can take the required minimum distribution and send it directly to a qualified charity instead of taking a tax hit. This strategy to help reduce your taxable income is for people who aren't reliant on the minimum distribution. One quick warning: The limit here is $100,000, and you do not qualify for a charitable deduction when you file your federal income taxes.

3. Roth Conversions.

Taking your 401(k) or traditional IRA dollars and converting them into Roth IRAs is a great strategy if you want to avoid heavy taxes and leave a legacy to your family. It also helps with tax diversification and may keep you in a lower tax bracket. Contributing money to a Roth can also help with liquidity, as your contributions can always be accessed without penalty. The need for liquidity is a common concern for retirement-minded individuals. You should consider Roth conversions because they can be a significant part of your retirement planning as you look to avoid tax losses. Keep in mind, in most cases, when you convert funds from a tax-deferred account to a Roth, it's considered a taxable event, meaning you may owe taxes on some or all of the amount converted. The tax-free growth over your lifetime, however, will help you reduce your taxes in retirement when tax rates could very well be higher than they are today.

(Continued)

4. After-Tax Contributions to a 401(k).

If you max your 401(k), depending on your employer's plan, you might still be able to make after-tax contributions to it. You can roll those after-tax contributions directly to a Roth IRA. Think of it as a "mega Roth contribution." It's a great way to potentially create a huge reserve of tax-free money down the road. Take into account though that salary deferrals are not eligible for rollover before age 59½ by IRS regulations.

5. Health Savings Accounts.

HSAs are a powerful vehicle to help avoid a significant tax bite. Individuals can max out their HSAs every year (in 2017 the annual limit is $3,400 for individuals and $6,750 for families, plus a $1,000 in catch-up contribution for those 55 and up), and you can get a tax deduction up front. Put money in your HSA to use whenever you have a medical expense. Currently, there are more than 1,000 over-the-counter (OTC) qualified medical expenses that HSAs can cover, everything from Band-Aids to eye drops. But think twice before pulling out that HSA debit card. You may be able to get a bigger bang for the buck if you let the money grow. You'd get the deduction for the contributions, taxes on growth are deferred and withdrawals are tax-free when used for qualified expenses. Under today's tax laws, if you keep a record of your medical expenses through the years, then come retirement, when you need income, you can cut yourself a retroactive reimbursement check for every medical expense you and your family incurred over the last decade, or several decades for that matter. In addition, your HSA can serve like an IRA once you turn 65, meaning you can use it for anything. While you will have to pay taxes on money you withdraw, you won't face the usual 20% penalty if you spend it on non-qualified medical expenses.

6. Non-Deductible IRAs.

Too often, higher earners write off Roth IRAs, thinking they make too much (eligibility starts phasing out for incomes of $118,000 for individuals) or there won't be a tax deduction. That can be a big mistake. Money put into a non-deductible traditional IRA can be converted to a Roth IRA, which means a portion of those funds were already taxed when making the conversion. High earners are essentially putting money into a Roth IRA through the back door. It's a great strategy to help reduce your tax burden come retirement, because earnings and withdrawals from Roths generally are tax-free.

"Retirement Coach," author and Investment Adviser Representative Chris Heerlein lives in Austin, Texas, with his wife, Hannah, and children, Evangeline, Paloma and Christopher. Chris has been featured in Fortune, Money Magazine, Bloomberg and Businessweek.

2017 Tax Deadline

Tuesday,
April 18th

Mark your
calendars!

"You can pay me next year. My tax guy advised me to defer my income."

How to Save Big on Taxes in 'The Goldilocks Zone'

Y: Mike Piershale, CHFC of the Piershale Financial Group

Article courtesy of: Kiplinger Washington Editors, February 2017

When people retire they often drop down a tax bracket because they no longer have any earned income. For example, a couple may be in a 25% tax bracket while they're working, but after they retire they could easily find themselves in the 15% tax bracket.

Once they reach age 70 1/2, these retirees have to start taking required minimum distributions out of their IRAs and other tax-advantaged retirement plans. Also, they may have delayed Social Security until 70 to get a bigger check. When all of this extra taxable income kicks in after age 70, they often jump right back up into a higher tax bracket, like 25%, for the rest of their lives.

For example, when a couple retires at age 65 they may have a five-year window, sometimes called the Goldilocks Zone, where from 65 to 70, they can take advantage of being in a lower tax bracket to cut their taxes through the use of tax bracket Roth conversions.

The idea is to pull money out of your pre-tax IRA while you're in a lower tax bracket, like the 15% bracket, and convert it to a Roth IRA. You'll lose 15 cents on the dollar in taxes when you do the conversion, but it may save you on taxes in the long run.

When you reach 70 1/2 and those taxable required minimum distributions kick in and possibly some delayed taxable Social Security, if it throws you into a higher bracket, like 25%, for the rest of your life, you'll save 25 cents on the dollar from that point on when you spend the Roth IRA money because it's now tax-free.

To illustrate, let's say Bob and Alice, a married couple filing a joint return, retire at age 65 and because they no longer have any earned income, they drop into the 15% tax bracket. Let's also assume they can trigger an extra $30,000 a year in taxable income and still be in the 15% bracket. Now they convert $30,000 of their pre-tax IRAs into Roth IRAs to use up the rest of their 15% tax bracket. They would have to pay $4,500 in federal taxes when they convert. In 10 years, the $30,000, which is now in Roth IRAs, is worth $53,725 assuming it averages a 6% rate of return. If this couple now decides to pull the money out, it's all free and clear of income taxes forever.

On the other hand, if they had left the $30,000 in the pre-tax IRA and took it out in 10 years, they would have to pay tax in a 25% bracket, assuming their required minimum distributions and delayed Social Security pushed them into this bracket after age 70.

Using the same 6% rate of return, after they pay the tax, they would have $40,294. They would still have the $4,500 that now wouldn't have to be used to pay tax on the Roth conversion. This would have grown to about $7,524 after-tax. Add these two numbers together and the total is $47,818 after-tax vs. the $53,725 on the Roth which is tax-free. That's a $6,000 difference in favor of the Roth. If this couple repeats this same strategy for five years from age 65 to 70, while they are temporarily in a 15% bracket, it would save them $30,000 in taxes. Welcome to the Goldilocks Zone.

Mike Piershale, ChFC, is president of Piershale Financial Group in Crystal Lake, Illinois. He works directly with clients on retirement and estate planning, portfolio management and insurance needs.

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166 W. University Parkway; Suite B
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Meet our new staff…

Daniel Laughlin

Daniel Laughlin is a staff accountant at Sipes & Seaton CPA, where he has various accounting, payroll, and write-up duties. He graduated from Union University in May 2016 with a Bachelor's of Science in Accounting. He previously interned for Tommy Borgognoni during the 2016 tax season and has also worked for the Jackson Country Club since 2014. He has plans to pursue his MBA and CPA license in the near future. Currently, he resides in Humboldt with his parents, niece, brother and sister.

Hannah Willis currently serves as our intern for the 2017 tax season. She is a senior at Union University with plans to graduate this May with a degree in Accounting and Economics. At school, she spends her time serving the student body as the Senior Class President. Prior to starting college, Hannah lived in Nashville, Tennessee, where she was born and raised, with her parents and three siblings. She and her siblings were homeschooled from kindergarten through high school. After graduation, she plans to return to Nashville to pursue her CPA license.

Hannah Willis