

NEWS

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Trusts: Boiled down to the basics - *Cliff Acheson, CPA*

If you're not a CPA or an Attorney, the first thought that may come to mind when you hear "Trust" is "I'm not old, I'm not dying, and I'm not super-rich, so why should I care about trusts?" That may be your first reaction, but that's not quite the whole story.

Trusts can be a very complex area to deal with, but boiled down to its basics, a trust is simply one person holding onto assets to benefit another person. The person who establishes the trust and transfers the property that makes up the trust is called the "Grantor." The person who holds onto the assets and is responsible for administering the trust is called the "Trustee." The person for whom the trust is established is called the "Beneficiary." The assets, both the original assets transferred and the income that is earned, are what make up the "Trust."

So, if you're not "old, dying, or super-rich," why would you want to establish a trust? There are many reasons, both tax and non-tax. For either reason, you can establish a trust while you are living, called an "intervivos trust," or the trust can be created by your will at your death, called a "testamentary trust." These trusts can benefit you and your family while you are living and after you have passed. Trusts can also be set up to be "revocable," that is, you can change your mind about the purpose of the trust, or even the existence of the trust.

Tax reasons are what most people think trusts are

all about, so we'll cover a few of those first.

Among other things, the tax benefits of trusts can:

- Keep life insurance out of your taxable estate
- Allow the maximum amount to pass tax-free to your children
- Make charitable contributions during your lifetime, but still receive income from the property
- Provide income for a fixed period of time
- Remove assets from your estate

Of course, many people also use trusts for non-tax purposes. There are many ways for trusts to help you accomplish your goals, but here are a few of the popular non-tax reasons for establishing a trust:

- Avoid probate in your state of residency
- Avoid probate in a different state, if that is where the trust property is located
- Allow easier management of your assets
- Preserve critical government assistance for a child or grandchild with special needs
- Provide financial security to your spouse while directing the ultimate disposition of your assets

Whatever your reason to create a trust, that goal cannot be accomplished unless assets are actually transferred into the trust.

Tax laws, financial positions, and life goals all continually change. The trust document should not go into a drawer and never be looked at again. To be sure your reasons for creating and having a trust continue to be met, make sure Sciarabba Walker is kept up-to-date on any changes or additions to the trust and continue to work with your attorney to make sure the trust continues to meet your tax and non-tax goals.



How Will the Patient Protection & Affordable Care Act Affect Your Business?

- Roberta Norman, CPA

Let's be honest, it's hard to keep up with everything businesses and individuals need to think about when it comes to health care. Changes and additions to legislation are continuously made to the Patient Protection and Affordable Care Act (PPACA). Let's take a look at what is important to think about for the next two years.

Business Considerations

Providing Insurance: The provision for employers to provide health insurance was delayed one year and also modified. Employers with 100 or more full-time equivalent employees could be subject to penalties in 2015 if they are not providing affordable, essential minimal coverage health insurance to at least 70% of their employees. The same penalties begin in 2016 for employers with 50 or more full-time equivalent employees. Employers of less than 50 full-time equivalent employees are not required to provide health insurance. If you are an employer of over 100 full-time equivalent employees and do not offer health insurance, you should begin to assess the impact of potential penalties. If you do offer health insurance, it is important to review your plans to ensure they meet the definition of affordable and also provide minimal essential coverage. It is never too soon to review your health plans and ensure you are not going to be subject to the employer shared responsibility penalties.

Small Employer Health Care Credit: What's new for the Small Employer Health Care Credit for 2014? The maximum credit climbs to 50% for for-profit employers and 35% for tax-exempt employers. Employers with 10 or fewer full-time employees, paying average annual wages of no more than \$25,000, may be eligible for the maximum credit. The credit is reduced as the number of employees reaches 25 and the average annual wages reaches \$50,000. To qualify in 2014 and future years, the employer must purchase their insurance through an insurance exchange. Only the premiums paid for insurance through an exchange will qualify for the credit.

Notice to Employees: Effective after October 1, 2013, employers are required to provide a written notice to each new employee that includes the existence of a marketplace, the employee may be eligible for a premium tax credit if certain conditions apply, and if they purchase a qualified health plan through the Marketplace, they may lose the employer contribution (if any) to any health benefits plan offered by the employer. The Department of Labor has provided model notices that can be downloaded and used.

Individual Considerations

Individual Mandate: Beginning in 2014, the PPACA imposed a shared responsibility payment on applicable individuals who fail to

carry minimum essential coverage for themselves and their dependents. Individuals who have employer-provided health insurance, Medicaid, Medicare, and certain other government health care programs are generally deemed to have minimal essential coverage. There are exceptions to this rule for religious conscientious exemptions and undocumented individuals in the U.S. Additionally, if you have had short gaps in coverage, they may not trigger the shared responsibility payment. For 2014, the payment amount is whichever is greater of the following: 1% of your household income that is above your tax filing threshold or your family's flat dollar amount (\$95 per adult and \$47.50 per child, limited to a family maximum of \$285). The payment will be made when you file your 2014 tax return in 2015.

Premium Assistance Tax Credit: This credit is scheduled to begin in 2014. Individuals who cannot afford coverage may be eligible for a refundable health insurance premium assistance credit. To be eligible, you must purchase insurance through an exchange, have a household income that falls within a certain range, are unable to get affordable health insurance through an eligible employer plan, are not eligible for coverage through a government program, do not file a Married Filing Separate tax return, and cannot be claimed as a dependent by another person. The credit operates on a sliding scale based on federal poverty level (FPL), generally between 100% and 400% of FPL (\$11,490 up to \$45,960 for an individual, \$15,510 up to \$62,040 for a family of two, and \$23,550 up to \$94,200 for a family of four). The tax credit can also be paid in advance in some situations. The open enrollment period has ended for 2014, however, under certain circumstances, eligible individuals may qualify for a special enrollment period.

What Can Sciarabba Walker Do To Assist You?

For business owners, we will determine your full-time equivalent employees. We can calculate the estimated penalties for not offering insurance if you are required to do so and review your health plan to make sure it fits the definition of affordable and minimal essential coverage.

For individuals, we will help you estimate what your shared responsibility payment may be for not maintaining health coverage. If you have purchased insurance through the exchange and meet the criteria for the premium tax credit, we can help you complete your 2014 tax return in 2015 to get the credit.

Please feel free to contact us with any questions regarding Patient Protection and the Affordable Care Act.

Source: *The Kiplinger Tax Letter - Vol. 89, No. 7*

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Thank you!

Buy-Sell Agreements: tough to discuss but often crucial

- Christopher Hart, CPA

Buy-sell agreements can be an effective tool to ensure the smooth continuation of a business with two or more owners after a disruptive event such as retirement or death. Unintended consequences of a disruptive event, such as entity dissolution or business liquidation, can be avoided by planning the succession through a buy-sell agreement.

A buy-sell agreement is a legally binding contract that establishes when, to whom, and at what price an owner, partner or shareholder can sell their interest in the business. Buy-sell provisions may be included in a business' operating agreement or it can be its own standalone document. Buy-sell agreements may also provide an owner the authority to force an unwilling owner to sell or give the owner the right to force the business or co-owners to buy him or her out.

The purpose of the agreement and its tax consequences must be taken into account in determining which buy-sell structure fits best. There are four basic structures:

- The entity may buy the interest of a departing or deceased owner
- Each owner may agree to buy a share of the interest of a departing or deceased owner
- A specific owner may agree to buy the entire interest of a departing or deceased owner

- The business can be given the option to purchase. If declined, the remaining owners are given the opportunity to purchase the interest.

A buy-sell agreement has one final advantage from an estate planning perspective, the ability to fix the purchase price as the estate tax value of the business interest. For purposes of this benefit, the agreement must pass the following four-part test in order to be recognized by the IRS:

Part 1: The estate must be obligated to sell the business interest at the price set forth in the buy-sell agreement.

Part 2: The buy-sell agreement must place certain restrictions on lifetime transfers of the business interest.

Part 3: The value of the business interest must be fixed by or determined from the buy-sell agreement.

Part 4: The buy-sell agreement must be a bona fide business arrangement, found to be comparable to an arms-length transaction.

Buy-sell agreements can accomplish many objectives from ensuring business stability to avoiding valuation problems from an estate tax perspective, and should be considered by all businesses now and in the future.

For any additional information or assistance please feel free to contact the professionals at Sciarabba Walker.



SciArabba Walker & Co., LLP
410 East Upland Road
Ithaca, NY 14850

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DESIGNED BY TRACY L. FULLER

Our Partners:

David Iles, CPA, Managing Partner
Linda Bruckner, CPA
Jeff Gorsky, CPA
David Stinson, CPA, MS

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REVENUE RECOGNITION: HOW WILL INDUSTRIES BE AFFECTED? - *Evan Ramiza, CPA*

Revenue recognition is one of the defining principles of accrual accounting, as it determines which accounting period revenue should be recognized. According to the principle, revenues are recognized when they are realized or realizable and are earned, regardless of when cash is received.

Over the past several years, the two primary standard setting bodies for accounting, the Financial Accounting Standards Board (FASB) and the International Accounting Standard Board (IASB) have been moving toward one single standard. This has resulted in changes to Generally Accepted Accounting Principles (GAAP), as both sides are trying to meet in the middle on areas of differences.

On May 28th, 2014, the FASB and IASB issued a converged standard on revenue recognition. This new standard will cause some levels of change for most industries and significant changes for certain industries. The standard will be effective for GAAP reporters for the first period beginning after December 15, 2017. No early adoption is permitted.

Some of the changes that will affect the largest number of industries are:

[New Depiction of Contract Modifications:](#)

The converged standard includes new framework for reporting on contract modifications. Past modifications will need to be considered when determining contract balances.

[Allocation of Transaction Price Based on Standalone Selling Price:](#)

Companies that provide multiple goods or services as part of a single contract must allocate the revenue to each good or service individually. The overall allocation would be based upon the amount charged for each item if done as a standalone good or service.

[Capitalization of Contract Costs:](#) Companies sometimes incur costs to obtain or fulfill a contract (sales commissions). Contract costs that meet certain requirements would be capitalized as an asset and amortized over the life of the contract as revenue is received.

[Enhanced Disclosure Requirements:](#) Most companies, even those which are not affected by the recognition or measurement changes

are likely to have changes in the needed financial statement disclosures. These disclosures will primarily revolve around multi-year contracts, or contracts that cross over into a new fiscal period. Both qualitative and quantitative information will need to be provided to explain the judgments made by management to determine when revenue is recorded.

Overall, the changes and implementations will require significant effort for some companies. Those companies with contracts, especially those with multi-year contracts should begin planning for these changes soon, as the information needed to comply with the standard and disclosures may be coming from multiple sources.

As always, please feel free to contact our office with any questions and/or concerns regarding revenue recognition.

Sources: Seven Revenue Recognition Considerations by Ken Tysiac

"Revenue Recognition - The future is here" by Dusty Stallings (Partner) & David Morgan (Senior Manager) PricewaterhouseCoopers