COUTO DEFRANCO, P.A.
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

Online Advisor

- SEPTEMBER 2017 -

CONTRACTOR OR EMPLOYEE? *Knowing the difference is important*

Is a worker an independent contractor or an employee? This seemingly simple question is often the contentious subject of numerous IRS audits. As an employer, getting this wrong could cost you plenty in the way of Social Security, Medicare and other employment-related taxes. Here is what you need to know.

As the worker:
If you are a contractor and not considered an employee you must:

- Pay self-employment taxes (Social Security and Medicare-related taxes)
- Make estimated federal and state tax payments

Greetings!

Happy Autumn! We are officially in fall. Now is the time of year when new beginnings typically happen, a new school year for the kids; and a new slate for the adults. You've probably re-organized and re-booted a bit after Labor Day. Why not continue and get your financial health in tip-top shape? Ready to for a year-end tax projection? Have a 401k to roll over? We are your advisors and here to help!

The partners and staff of Couto DeFranco, P.A.

IF YOU LIKE US...."Like us" on Facebook! We will be posting up-to-date information and deadlines.

KNOW YOUR RIGHTS WHEN DEBT COLLECTORS CALL

At some point you may be on the receiving end of a debt collection phone call. It could happen any time you are behind on paying your bills or when there is an error in billing. In the U.S. there are strict rules in place that forbid any kind of harassment. If you know your rights, you can deal with debt collection with minimum hassle. Here are some suggestions.

Ask for non-threatening transparency.
When a debt collector calls, they must be transparent about who they are. The magic words they must utter are: "This is an attempt to collect a debt and any information obtained will be used for that purpose." In addition, debt collectors cannot use abusive or threatening language, or threaten you with fines or jail time. The most a debt collector can truthfully threaten you with is that failure to pay will harm your credit rating, or that they may sue you in a civil

- payments
- Handle your own benefits, insurance and bookkeeping

As the employer:
You must ensure your employee versus independent contractor determination is correct. Getting this wrong in the eyes of the IRS can lead to:

- Payment and penalties related to Social Security and Medicare taxes
- Payment of possible overtime, including penalties for a contractor reclassified as an employee
- A legal obligation to pay for benefits

Things to consider

When the IRS recharacterizes an independent contractor as an employee they look at the business relationship between the employer and the worker. The IRS focuses on the degree of control exercised by the business over the work done and they assess the worker's independence. Here are some of their guidelines:

- The more the employer has the right to control the work (when, how and where the work is done), the more likely the worker is an employee

to pay will harm your credit rating, or that they may sue you in a civil court to extract payment.

Know the contact rules.
Debt collectors may not contact you outside of "normal" hours, which is between 8 a.m. and 9 p.m. local time. They may try to call you at work, but they must stop if you tell them that you cannot receive calls there. Debt collectors may not talk to anyone else about your debt (other than your attorney, if you have one), but they may try contacting other people, such as relatives, neighbors or employers. This must be solely for the purpose of trying to find out your phone number, address or where you work.

Take action.
If you believe the debt is in error in whole or in part, you can send a dispute letter to the collection agency within 30 days of first contact. Ask the collector for their mailing address and let them know you are filing a dispute. They will have to cease all collection activities until they send you legal documentation verifying the debt.

Tell them to stop.
And, whether you dispute the debt or not, at any time you can send a "cease letter" to the collection agency telling them to stop making contact. You don't need to provide a specific reason. They will have to stop contact after this point, though they may still decide to pursue legal options in civil court.

If a debt collection agency is not following these rules, report them. Start with your state's attorney general office, and consider filing a complaint with the U.S. Federal Trade Commission and the Consumer Financial Protection Bureau as well.

SAY GOODBYE TO THE COLLEGE TUITION DEDUCTION

It's hard enough to watch your child leave for college. Now you also have to say goodbye to the tuition and fees tax deduction. Congress decided not to extend this $4,000 deduction for 2017, leaving many parents worried that college will now be more expensive.

But it isn't as bad as it sounds. That's because Congress left in place two popular education credits that may offer a more valuable tax break:

- **The AOTC.** The American Opportunity Tax Credit (AOTC) is a credit of up to 2,500 per student per year for qualified undergraduate tuition, fees and course materials. The deduction phases out at higher income levels, and is eliminated altogether for married couples with a modified adjusted gross income of $180,000 ($90,000 for singles).
- **Lifetime Learning Credit.** The Lifetime Learning Credit provides an annual credit of 20 percent on the first $10,000 of tuition and fees

an employee.

- The more the financial relationship is controlled by the employer, the more likely the relationship will be seen as an employee and not an independent contractor. To clarify this, an independent contractor should have a contract, have multiple customers, invoice the company for work done, and handle financial matters in a professional manner.
- The more businesslike the arrangement, the more likely you have an independent contractor relationship.

While there are no hard-set rules, the more reasonable your basis for classification and the more consistently it is applied, the more likely an independent contractor classification will not be challenged.

QUICK LINKS

Services

Resources

Financial Planning

annual credit of 20 percent on the first $10,000 of tuition and fees, for either undergraduate or graduate level classes. There is no lifetime limit on the credit, but only couples making less than $132,000 per year (or singles making $66,000) qualify. Unlike the AOTC, this deduction is per tax return, not per student.

So who is affected by the loss of the tuition and fees deduction? If you are paying for your student's graduate-level courses and are making too much to qualify for the Lifetime Learning Credit, the tuition and fees deduction is generally the only means you have to reduce your tax bill.

But there's still hope! In addition to the two alternative education credits, there are many other tax benefits that help reduce the cost of education. There are breaks for employer-provided tuition assistance, deductions for student loan interest, tax-beneficial college savings options, and many other tax-planning alternatives. Please call if you'd like an overview of the alternatives available to you.

AVOID THESE COMMON TAX MISTAKES

There are nearly 1,000 different tax forms used by the IRS to report tax obligations. It's no wonder the IRS faces thousands of tax returns with errors each year. Here are some of the most common:

Wrong names and Social Security numbers.
Taxpayers regularly make mistakes by entering incorrect information for their spouses and dependents. If you recently married or divorced but haven't yet changed your name with the Social Security Administration, you'll need to file under your old name.

Errors in age and birthdate.
Much of the tax code is based on age. Without the correct birthdate, your eligibility for tax benefits could be cast in doubt.

Incorrect bank account numbers.
If you're expecting a refund and want to have it direct deposited into your account, double-check your routing and account numbers. The IRS may catch most errors, but many are often missed. Once your refund is deposited in the wrong bank account, it's very difficult to get it fixed.

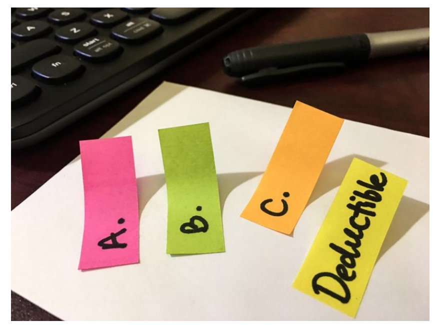
Overlooking online donations.
Many people forget about emailed receipts at tax time. Catch missing deductions by searching your email inbox for keywords such as "gift" or "donation" before you file.

Missing forms.
Taxpayers can miss dividend, interest and brokerage forms (Form 1099s) they get from their banks and investment accounts. These potential missing forms now also include Form 1095, proof of health insurance. If a form is missing, it may cost you extra tax, penalties and interest.

Not signing the return.
Don't forget to sign your return! The IRS won't accept an unsigned return, and many people forget this last step. An unsigned tax return is the same thing as not filing in the eyes of the IRS. You not only face penalties and fines, but your tax return is open for audit indefinitely.

SAVE ON INSURANCE BY RAISING DEDUCTIBLES

Having insurance for your home and vehicle is essential to ward off financial disaster should accidents occur. Unfortunately, insurance policies continue to become more and more expensive. One thing you can do to lower your insurance cost is to consider increasing your coverage deductibles.



Higher deductible, lower insurance cost.
Deductibles are the out-of-pocket cost you must pay before your insurance company steps in with its coverage. If you are willing to increase your deductibles, your insurance company will lower your monthly insurance premium.

By increasing car insurance deductibles from $500 to $2,000, the average American would save 16 percent a year, according to the online insurance broker InsuranceQuotes.com. The actual amount you would save on either car or home insurance depends on the state you live in, your demographic profile and claims history.

Do the math.
Before you decide whether upping your deductibles is right for you, find out how much you would save. Suppose you would save $200 a year by increasing your car insurance collision and comprehensive deductibles to $2,000 from $500. After 7.5 years, you would accumulate enough savings to make up the $1,500 out-of-pocket cost should you have an accident.

Now consider how likely you are to have an accident. About six in every 100 U.S. motorists file a collision claim every year and three in 100 file a comprehensive claim, according to the Insurance Information Institute. If those claims were spread out evenly, it would mean every motorist would go 16.5 years before filing a collision claim, and more than 33 years before filing a comprehensive claim.

Of course, claims are not spread out evenly and no one person's experience is "average." Your actual risk will depend greatly on how safe of a driver you are, how many miles you drive a year and where you drive. You have to make a similar estimate of your likelihood of filing a claim on your homeowners insurance.

Nelson Couto CPA, CFP™
Anthony DeFranco CPA, CFP™

CERTIFIED FINANCIAL PLANNERS™

Nelson J. Couto, CPA, CFP™

Anthony DeFranco, CPA, CFP™

View our profile on LinkedIn

Nelson J. Couto, Partner

View our profile on LinkedIn

Anthony DeFranco, Partner

Like us on Facebook

Couto DeFranco Facebook

For Interesting Tax Facts and Small Business Updates, be sure to "Like Us" on Facebook!

Avoid the rate-hike game
An additional benefit of raising your deductibles is that you'll have fewer claims for minor repairs that could raise your insurance premiums. With fewer claims and higher deductibles, your annual savings could outweigh your out-of-pocket costs even sooner.

Save up and be ready
Remember that increasing your deductibles can create a financial hardship. Before you change your policy you need to be prepared by having enough cash in a savings account to cover your higher deductible.

We hope you found this information helpful. Call today to schedule your appointment to start getting into financial shape!

973.325.3370

Sincerely,

The Partners and Staff
Couto DeFranco, P.A.

COUTO & DeFRANCO have been chosen as FIVE STAR Wealth Managers for the fourth consecutive year!

Nelson Couto and **Anthony DeFranco** honored with a recognition by **NJ Monthly Magazine** in its selection of **"Top Wealth Managers In NJ 2017"**

Nelson Couto, CPA, CFP®and Anthony DeFranco, CPA, CFP®, MS (Taxation) of Couto DeFranco, P.A. have been named as 2017 Five Star Wealth Managers and featured in New Jersey Monthly magazine January 2017. Out of the 3868 wealth managers in New Jersey who were seriously considered for the award, 664 were named, which represents less than 18% of the wealth managers considered. This istheir fourth time winning this prestigious award!

"We are delighted to be acknowledged as a Five Star Wealth Manager by New Jersey Monthly, and proud that the work we have done for our clients has been recognized," says Anthony DeFranco.

Couto and DeFranco are recognized as leaders in the field of wealth management. They combine their knowledge of financial planning with over 25 years as CPAs, helping their clients with their wealth management and tax planning needs, along with assisting them with their financial goals and aspirations.

They believe the best way to help clients reach their financial goals is simple: to listen. "It is important to listen to where they are today and where they want to be tomorrow," says Nelson Couto. The partners feel that clients are paying them for their knowledge-both as NJ Certified Public Accountants and as Certified Financial Planner™ professionals-so it is their responsibility to develop a financial plan that is sound, objective and honest. This model has been their secret to success.

Starting a business? Tax Questions? Need Financial Planning?

Print out this certificate for a complimentary one-hour consultation.

COUTO DEFRANCO, P. A.

ABOUT US | **SERVICES** | **INDUSTRIES** | **RESOURCES** | **CAREERS** | **CONTACT US** | **HOME**

300 Executive Drive, Suite 200, West Orange, NJ 07052, USA.
Telephone: (973) 325-3370 Fax: (973) 325-3371
Email: info@coutodefranco.com