



FEBRUARY 2019



All systems go for tax season! Filing season kicked off on Jan. 28 and tax returns are pouring into the IRS. Now that the IRS is accepting tax returns, fraudsters are actively seeking out taxpayer information to file fake returns and claim fraudulent refunds. Please review the tips for how to protect yourself from these scammers. This issue includes remedies for common financial mistakes, tax-free benefit ideas you can offer your employees, and five things every high school senior should know.

Call if you would like to discuss how any of this information relates to you. If you know someone that can benefit from this newsletter, feel free to send it to them.

Tips to Protect Yourself from Tax Scams



Too many people downplay the threat of identity theft because it hasn't been witnessed or experienced firsthand. This false sense of security can leave you exposed, especially during tax season. Here are some tips to keep your identity safe from scammers:

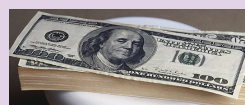
1. **Be naturally suspicious.** Understand that there are people out there trying to get your information, and others willing to pay for it. With that knowledge, be suspicious of anyone asking for personal information - especially your Social Security number (SSN). Even when a known vendor asks for your SSN, ask what they will be using it for and refuse most requests unless you deem it necessary.
2. **File your tax return as soon as possible.** A popular tax scam is to file a fake tax return and deposit the refund into the thief's account, all before you get the chance to file your own return. You close the door on scammers once your tax return is filed with the IRS.
3. **Shred (don't just crumple) your documents.** Get in the habit of shredding all paperwork before it's thrown out to keep personal information from falling into the wrong hands. If you don't own a shredder, contact your bank or other local community services as they often offer free shredding services on specific days.
4. **Keep your Social Security card safe.** Only carry your Social Security card with you when it's needed for a specific purpose. Your wallet or purse is not a good permanent spot for your card. Any criminal would have a treasure trove of personal data if it were to get lost or stolen along with your driver's license and credit cards.
5. **Periodically check your credit reports.** The three major collection agencies (Experian, Equifax and TransUnion) are legally required to provide you with [a free credit report each year](#). Take advantage of this service and review the reports. Correct any errors and use this report to monitor your accounts for any potential identity theft.

Be smart when handling your personal information. Don't get caught off guard by identity theft, especially by being careless. If you think you are a victim of a tax scam, alert the IRS

Reminders:

- Receive all 1099s and W-2s
- Set up tax appointment
- Re-balance investment portfolios

How to Correct Common Financial Mistakes



You're working at the office, getting stuff done around the house, or hanging out with family when - wham! - a phone call, email or text alerts you that something is wrong with your finances. When a negative financial event hits, don't let it take you down. Here are some common mistakes and steps to remedy each situation:

- **You overdraw your bank account.** First, stop using the account to avoid additional overdraft fees. Next, manually balance

Major Life Changes Ahead? Read This!



When a big life decision is on the horizon, go in with your eyes open to the potential tax implications. Carefully weigh all your options and seek help before you act.

Too often major life decisions have tax implications attached to them. For the unwary, this can create a fairly large and unexpected tax bill. Here are four examples of major life changes that can have complicated tax implications:

- **Changing jobs.** Whether it's a new, exciting opportunity or a result of being laid off, a job change is going to affect your tax obligation. The termination of your previous job likely adds additional taxable income in the form of accrued vacation or a severance package. Review how your former employer handles tax withholding's, especially for big payouts. Your new job also brings new tax implications with a new salary, new benefits and possibly different taxing jurisdictions if you also move to a new location.
- **Selling your house.** When selling a house or other residential property, the first thing to determine is whether it's your primary residence. If so, the IRS provides an exemption from tax for up to \$250,000 (\$500,000 for joint couples) of the gain realized from the sale of your home as long as you lived in it for at least two of the previous five years. Any gain above the exemption is subject to capital gains tax. If the property you are selling is not your primary residence, capital gains tax applies, and you also have to deal with other more complicated tax code issues.
- **Adding a second job.** The extra money you earn when adding a second job or business also brings extra taxes. How much additional tax this second income creates depends on your situation. Employment status, type of business, and how it relates to your other tax activities need to be considered. The extra income alone can send you into a higher tax bracket.
- **Deciding when to retire.** Your retirement plans and timing of retirement plan distributions play a big role in how much tax you will pay on your retirement earnings. For example, with traditional IRAs, there are early withdrawal penalties before you reach age 59½ and required minimum distributions after reaching age 70½ years old. For Social Security, collecting benefits early means less in monthly benefits and potentially a higher tax obligation if you have additional earnings. Each source of retirement income has its own set of taxation rules which can create a very complicated tax environment.



7 Tax-Free Ideas to Bolster Your Business Benefits Package

The benefits package offered by your business is extremely important to your employees. How important? A survey performed by the Society of Human Resource Management (SHRM) found that benefits are directly tied to overall job satisfaction

your account by reviewing all posted transactions.

Look for unexpected items and fraudulent activity.

Then, call your bank to explain the situation and

ask that all fees be

refunded. Banks are not

obligated to refund fees,

but often times they will.

The next steps vary based

on the reason for the

overdraft, but ultimately

your goal is to bring your

account back to a positive

balance as soon as

possible.

- **You miss a credit card payment.** Make as big a payment as possible as soon as you realize you missed it. Time is of the essence with late credit card payments - the longer it goes, the more serious the consequences. Then call the credit card company to discuss the missed payment. You might be able to get a refund of the late fees, and perhaps a reversal of the interest charge.
- **You forget to file a tax return.** Gather all your tax documents as soon as possible, and file the tax return even if you can't pay the taxes owed. This will stop your account from gathering additional penalties. You can then work with the IRS on a payment plan if need be. The sooner you file, the sooner the money will be in your bank account if you're due a refund. If you wait too long (three years or more), any potential refunds will be gone forever.
- **You lose your wallet.** Start by calling all of your debit card providers, then your bank and the credit card companies. Next, set up fraud alerts with the major

for 92 percent of employees. Even more importantly, 29 percent of employees cited the overall benefits package at their current employer as the top reason to look for new employment in the next 12 months.

Here are some tax-free benefit ideas to help beef up your benefits package and retain your employees:

1. **Health benefits.** According to SHRM, health insurance still remains one of the most important employee benefits. Health insurance benefits come in all shapes and sizes, so you will need to constantly evaluate plans and costs. From a tax standpoint, employers can deduct this expense, and your employees do not report health insurance premiums or employer contributions to health savings accounts (HSAs) as additional income. This includes premiums paid for the employee and qualified family members. Even better, the employee portion of premiums can still be paid in pre-tax dollars.
2. **Dependent care benefits.** Employers are able to provide employees with up to \$5,000 per year in tax-free dependent care assistance under a qualified plan. There are a few ways to provide this benefit, but a common method is to set up a flexible spending account (FSA) that both the employer and employee can use to make contributions. The employer portion is tax-free and the employee portion reduces taxable income as long as the total benefit is \$5,000 or less.
3. **Employee tuition reimbursement.** By offering tuition reimbursement, you can add another quality benefit to your package while investing in your employee's career. Up to \$5,250 of tuition expenses can be reimbursed tax-free to your employee each year.
4. **Credit card points.** This is a good benefit for outside sales and employees that travel frequently. If you have a corporate credit card program, consider passing the points on to the employee. If you reimburse employee expenses under an accountable plan, estimate the value of points your employee earns on reimbursed business purchases and include it in your annual benefits presentation. Generally the IRS considers credit card points as rebates and not taxable income.
5. **Group term life insurance.** You can generally exclude the cost of up to \$50,000 of group term life insurance from your employee's wages.
6. **Other fringe benefits.** Some examples of other nontaxable fringe benefits are employee wellness programs, onsite fitness gyms, adoption assistance, retirement planning services and employee discounts.
7. **Small gifts.** The IRS calls these "de minimis" benefits. Small-valued benefits are not included in income and can include things like the use of the company copy machine, occasional meals, small gifts and tickets to a sporting event.

With historically low unemployment levels, employees have more options than normal to look around if they aren't satisfied. Your business's benefits package is an important tool to help you keep your valued employees. While each is an additional expense to the employer, the perceived benefit by employees may far outweigh these costs.

credit reporting companies and get a new driver's license. Finally, if you think it was stolen, file a report with the police.

- **You miss an estimated tax payment.** Estimated payments are due in April, June, September and January each year. If you are required to make estimated payments and miss a due date, don't simply wait until the next due date. Pay it as soon as possible to avoid further penalties. If you have a legitimate reason for missing the payment, such as a casualty or disaster loss, you might be able to reduce your penalty.

Remember, mistakes happen. When they do, stay calm and walk through the steps to correct the situation as soon as possible.

5 Things Every High School Senior Should Know



As the school year rolls into February, suddenly the realization sets in that high school seniors only have a few months left before graduation. Here are five things each graduate should understand before their big graduation day:

1. **Debt needs to be managed carefully.** It is way too easy to burden oneself under a pile of debt. This is especially true with college loans and credit card debt. While college debt may be unavoidable, try to minimize the size of the loans as much as possible. Regarding credit cards, help your student find the one that best fits their circumstance. This card can be used to create a great credit score for future loans by paying off the whole balance every month. If they can't, the card should only be used for emergencies. And they should never buy something they can't afford.
2. **Students need to invest in themselves.** As it stands right now, high school students consist of 18 years of experiences, nurturing and decision-making. Now they are faced with a big decision. "Should I pay for college or a trade school?" Just remind them, the more employable they are, the greater their life-long income potential. So while tempted to take another path, the best return on most young student's investment is often one that is made to create a better employment future for themselves.
3. **Comfort is overrated.** It is in our nature to be comfortable - to take the path of least resistance. The times where you step outside of your comfort zone are often the times you learn the most about yourself. These experiences often grow confidence to tackle more difficult challenges when they come along. So encourage your teen to work hard and gain the wisdom that comes with these early experiences.
4. **Life is expensive.** Utilities, insurance, taxes, association dues and medical expenses are just some examples of typical "hidden" expenses. Before every big decision, teach your young graduate to research the costs and talk to people that have been in their shoes. In addition to recurring expenses,

these new grads need to plan for unforeseen emergencies like dropping a phone in the sink or having unexpected car repairs. So teaching a student how to make a budget and save three to six months of expenses in an emergency account are two great habits to encourage.

5. **Enjoy the journey.** Graduating from high school is an exciting time, but can also bring tremendous uncertainty. As your student moves on to their next phase, new emotions will arrive and others will fade away. Encourage your young adult to steal moments each day to reflect on where they've been and focus on the positive aspects of their current situation. Each phase of life brings its unique set of challenges to be experienced. Encourage them to enjoy their journey.

2019 State Business Tax Climate Rankings

The tax climate for businesses varies dramatically depending on where your business is located. State business environments are constantly shifting; some states readily enact changes made at the federal level, while others do not.

Each year the non-profit Tax Foundation organization announces a ranking of tax burdens for businesses. The results of its 2019 ranking are noted here:

State	Rank	State	Rank
Alabama	39	Montana	5
Alaska	2	Nebraska	24
Arizona	27	Nevada	9
Arkansas	46	New Hampshire	6
California	49	New Jersey	50
Colorado	18	New Mexico	25
Connecticut	47	New York	48
Delaware	11	North Carolina	12
Florida	4	North Dakota	17
Georgia	33	Ohio	42
Hawaii	38	Oklahoma	26
Idaho	21	Oregon	7
Illinois	36	Pennsylvania	34
Indiana	10	Rhode Island	37
Iowa	45	South Carolina	35
Kansas	28	South Dakota	3
Kentucky	23	Tennessee	16
Louisiana	44	Texas	15
Maine	30	Utah	8
Maryland	40	Vermont	41
Massachusetts	29	Virginia	22
Michigan	13	Washington	20
Minnesota	43	West Virginia	19
Mississippi	31	Wisconsin	32
Missouri	14	Wyoming	1

Note: A rank of 1 is best, 50 is worst. Rankings do not average to the total. States without a tax rank equally as 1. D.C.'s score and rank do not affect other states. The report shows tax systems as of July 1, 2018 (the beginning of the Fiscal Year 2019).

Source: Tax Foundation - <https://taxfoundation.org/state-business-tax-climate-index-2019/>

The 10 best business tax states in this year's index are:

1. Wyoming
2. Alaska
3. South Dakota
4. Florida
5. Montana
6. New Hampshire
7. Oregon
8. Utah
9. Nevada
10. Indiana

Most of the above states are favorable for businesses because they lack one of the common tax revenue sources. Some states lack corporate taxes while others have no sales tax or individual income taxes. Indiana is unique in that it has all the major tax classifications but at lower rates than most other states.

The 10 worst business tax states in this year's index are:

41. Vermont
42. Ohio
43. Minnesota
44. Louisiana
45. Iowa
46. Arkansas
47. Connecticut
48. New York
49. California

50. New Jersey

The common themes within these non-friendly business tax states are high tax rates with complex tax codes. Iowa and Arkansas dropped into the bottom 10 replacing Rhode Island and Maryland this year.

EXCITING COUTO DEFranCO NEWS:



We've been recognized as "Top Wealth Managers in NJ" 6th Year in a Row!

Nelson Couto, CPA, CFP®, and Anthony DeFranco, CPA, CFP®, MS (Taxation) of Couto DeFranco, P.A. have been named as 2019 Five Star Wealth Managers and will be featured in the Wall Street Journal, February 27th issue. Out of the 6,097 wealth managers in New Jersey who were seriously considered for the award, 477 were named. This is their sixth time winning this prestigious award. Nelson and Anthony were previous recipients of the award beginning in 2013.

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

Couto and DeFranco are regarded as leaders in the field of wealth management. They combine their knowledge of financial services 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 strategy that is sound, objective and honest. This model has been their secret to success.



