



At Strothman and Company we help entrepreneurial businesses grow. At every stage. Every day. That's why we keep you up to date on relevant issues.

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## **Strothman Spotlight**

**Strothman and Company would like to congratulate the following employees on their years of dedication to our clients and the firm:**

**[Bill Carroll CPA - Partner - 25 years!](#)**

Bill joined the firm after a successful career with Deloitte, an international CPA firm. He works with a wide variety of clients, including closely held businesses, governmental agencies, and nonprofit organizations.



**John Kennedy CPA - Senior Manager - 25 Years!**

John got his initial public accounting experience with Ernst & Young and KFC. He heads up the quality control function for the firm's assurance practice, and works with a wide variety of clients.



**Bill Meyer CPA - Managing Partner - 20 Years!**

Bill joined the firm after 13 years with Pricewaterhouse Coopers. He became managing partner effective January 1 of this year, and works closely with Chairman Ray Strothman and COO Melissa Fraser in managing the firm. He also serves a large and diverse client base in a variety of industries.



**Laurie Atwell CPA - Senior Manager - 20 Years!**

Laurie moved to Louisville 20 years ago along with her UPS pilot husband. She previously worked in public accounting with PricewaterhouseCoopers and with a Las Vegas CPA firm. She serves primarily closely held business clients.



**Jeanna Jones CPA - Senior Manager - 20 Years!**

Jeanna had experience with another CPA firm and in the healthcare industry before joining Strothman and Company 20 years ago. She specializes in serving closely held businesses, governmental agencies, and nonprofit organizations.



### **Rowe Hamilton CPA - Partner - 10 Years!**

Rowe successfully founded another local CPA firm, which he left 10 years ago to join Strothman and Company. Rowe has a number of loyal clients who have been with him over the years. He is also seen as an innovator in our industry.



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## **Make Your Moves Now for 2015 Year-End Tax Planning**

The end of the year is approaching and now is the time to take action to lower your tax bill. Here are four moves you can make now so you can have a smile on your face when you do your 2015 tax return next year.

### 1) Reap What the Market Sowed

Selling stocks or mutual funds that have unrealized losses allows you to offset profits made on other investments. After all your gains and losses have been netted, if you still have losses

remaining you can deduct up to \$3,000 of those losses against other types of income. Any losses beyond this may be carried forward to future years.

There are a few important details to remember with tax-loss harvesting. First, beware of the wash sale rules. If you sell a stock at a loss but then repurchase the same stock within 30 days, it is considered a wash sale. This means the losses you thought you harvested for tax purposes are not allowed. Second, this strategy only works with taxable accounts, so you cannot use this strategy in retirement accounts such as IRAs or 401(k) accounts.

## 2) Timing is a Game We Play

Except for a few items, your taxes are almost entirely based on income received and deductions paid within the same year. For example, if you pay your January mortgage bill before Dec. 31, then you can deduct that payment's interest on your 2015 return. Similarly, if you can defer any income until next year, it will not be taxed until 2016. One way to do this, for example, is if you run your own business, then you can wait until January to bill clients for work done in December.

Beware that playing the timing game can help this year but hurt next year. If you pay your mortgage early this year, then you will have one less interest payment to deduct next year. One reason people engage in a timing strategy is that itemized deductions only benefit you to the extent that they exceed your standard deduction, so see-sawing between years of higher and lower deductions might be of benefit depending on your personal situation.

## 3) Stockpile for Your Golden Years

Unlike most income and deductions where timing is based on current year transactions, certain retirement account contributions are an exception to the rule. Extra 401(k) contributions for example, must occur within the taxable year, whereas IRA contributions can be made any time through the tax filing deadline and still be deductible for 2015.

## 4) Give Until it Hurts

You might begin noticing an uptick in solicitations from charitable organizations around this time of the year. There are two reasons for this. First, many of us feel extra generous during the season between Thanksgiving and Christmas, so we are more inclined to donate to organizations. Second, these organizations know that this is crunch time to make donations that can be deducted for tax purposes. There are a few things you can do to up your charitable contribution deduction.

First, go clean your closets and garage. If you were going to donate clothes, furniture or other household items, now is the time to do so. Be careful how you value used items you donate. Large, non-cash donations can attract extra scrutiny from the IRS, so keep track of all giving and how you determined the value of your donations.

Second, cash donations need to be made before Dec. 31 to be deductible on your 2015 tax return. Donations made by credit card, however, only need to be charged on or before the end of the year - you can pay the credit card off in January and still take the deduction. Lastly, remember to keep records such as canceled checks, etc. Cash contributions of \$250 or more mean you will need an acknowledgement from the charity.

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## Outside the Gift Box, Year-End Giving Strategies

As we approach the end of the year, it's a good time to consider making holiday charitable gifts - which might come in handy during tax season. In addition to the usual year-end strategies, you might look a bit outside the gift box for donation ideas.

For example, approximately \$16 billion dollars' worth of credit card rewards points go unused each year by credit card holders. Imagine if those rewards were donated to charities? Many rewards programs will allow you to donate your awards directly to established charities via their website. However, bear in mind that utilizing this convenient transfer strategy will not qualify as a taxable donation. To get the tax deduction, you'll need to exchange rewards points for cash and then send the charitable donation yourself.

If you earn loyalty points in the form of airline miles, you can donate these as well. The Hero Miles Program, authorized as a component of the Department of Defense Authorization Act, enables donors to gift frequent flier miles from Alaska Airlines, American Airlines, Delta Air Lines, Frontier Airlines, United Airlines and US Airways to wounded, injured or ill military service members and their families. For more information, go to Fisherhouse.org (<http://www.fisherhouse.org/programs/hero-miles>). But bear in mind that here, too, the IRS does not permit donated frequent flier miles to be claimed as a charitable tax deduction.

Another alternative is to give the gift of fine art. A gift of valuable artwork to a museum or other charitable organization can qualify for a tax deduction. The value of the deduction differs depending on whether it is gifted while the owner is alive or as part of an estate after the owner passes away. While alive, the taxpayer can claim up to 30 percent of adjusted gross income based on the value of the work at the time of the gift. If donated after death, the donor's estate will receive an estate tax deduction based on the artwork's valuation at death.

Rather than getting hit with capital gains taxes, consider gifting highly appreciated shares of stock. If you're looking to rebalance your portfolio by year's end, you might save money by gifting shares in the amount you would normally donate to a charity. You will receive an immediate tax deduction on the full market value of the gift, plus save what you would've paid in capital gains taxes on the appreciated portion of the shares.

If you need help determining which securities to gift, consider stocks with the lowest cost basis, as these will save you the most in capital gains taxes. You can then use the cash you would have otherwise donated to the charity to repurchase the same stock. This strategy enables you to unload low cost-basis shares - and you don't have to worry about the 60-day wash sale rule. By gifting long-term appreciated shares, you not only benefit from a potentially higher tax deduction, but your gift will be worth more than what you originally paid for it.

If you're considering unloading shares that have lost value, it's better to sell them first and use the proceeds to make a direct cash donation. This way, you can claim the capital loss on your tax return as well as receive the tax deduction for the gift. The combination of the two tax deductions might even cover your losses.

Some people make charitable gifts depending on their income that year - in good years they make donations, in bad years they either don't gift or give a reduced amount. While that might work for your budget, consider how difficult it is for charities to maintain their operations with this type of variable and uncertain income.

To enable you to make regular donations every year, consider making a large donation (in a

flush year) to a donor advised fund. A DAF works like a professionally managed mutual fund. Your donation is combined with others and the fund manager makes day-to-day investment decisions. You can then make annual grants to the qualified charities of your choosing, essentially creating a legacy instead of a one-time donation. This strategy positions a large donation to grow over time, allowing for smaller but consistent gifts each year. With a DAF, you'll receive an immediate tax deduction (subject to income limitations) on your initial irrevocable contribution of cash or marketable securities.

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## **Congress at Work: Balancing the Budget, Closing Borders and Exploring Air Space**

The Congress at Work series of articles is designed to give you a glimpse of various types of legislation currently under consideration. While either the Senate or the House of Representatives may initiate a bill proposal, be aware that many bills never become law; they may never make it out of committee, be blocked by a Senate filibuster, delayed, lack enough votes, never be agreed upon by the two houses, or vetoed by the president.

### **Bipartisan Budget Act of 2015 (H.R. 1314)**

- After three unsuccessful attempts, this bill was finally passed and signed into law on Nov. 2. The budget bill raises the government's debt ceiling to allow for higher government spending levels and avoid a government default. Among its provisions, there is a new clause that allows the Federal Communications Commission to regulate the number and duration of robocalls made to cell phones for the purpose of collecting debt that is owed to the government.

### **Surface Transportation Extension Act of 2015, Part II (H.R. 3996)**

- This bill is designed to provide an extension of Federal-aid highway, highway safety, motor carrier safety, transit, and other programs funded out of the Highway Trust Fund. The bill was passed by both chambers in identical form and signed into law by the president on Nov. 20.

### **DHS Social Media Improvement Act of 2015 (H.R.623)**

- This bill, sponsored by Rep. Susan Brooks (R-IN), amends the Homeland Security Act of 2002 to establish within the Department of Homeland Security a social media working group. This group will use social media technologies to provide guidance and best practices for emergency preparedness and community response before, during and after a natural disaster, act of terrorism or other man-made disaster. The bill was enacted after being signed by the president on Nov. 5

### **Superstorm Sandy Relief and Disaster Loan Program Improvement Act of 2015 (H.R. 208)**

- The Small Business Administration experienced problems and delays in the operation of the Disaster Loan Program after Superstorm Sandy, largely due to the unexpectedly high volume of loan applications that it received early on. This bill calls for a plan to ensure that sufficient human and technological resources are made available to prevent delays in loan processing in the future. The bill, sponsored by Rep. Nydia Velázquez (D-NY), was passed by Congress on Nov. 16 and is currently with the president.

### **Illegal, Unreported and Unregulated Fishing Enforcement Act of 2015 (H.R. 774)**

- This bill was introduced by Madeleine Bordallo (D), Delegate for Guam At Large. Passed in both Houses and signed into law on Nov. 5, its objective is to strengthen enforcement mechanisms to stop illegal, unreported and unregulated fishing.

### **Protecting Our Infants Act of 2015 (S.799)**

- Written by its sponsor, Sen. Mitch McConnell (R-KY), this bill is designed to address the problems associated with prenatal opioid use. It directs the Department of Health and Human Services to conduct a study and develop recommendations for preventing and treating prenatal opioid use disorders, including the effects of those disorders on infants. The bill was passed by Congress on Nov. 16 and is awaiting the president's signature.

### **U.S. Commercial Space Launch Competitiveness Act (H.R. 2262)**

- This bill is designed to facilitate a pro-growth environment for the developing commercial space industry by encouraging private sector investment and creating more stable and predictable regulatory conditions. Introduced by Rep. Kevin McCarthy (R-CA) in May of 2015, this bill was passed by Congress on Nov. 16 and it awaiting the president's signature.

### **American Security Against Foreign Enemies SAFE Act of 2015 (H.R. 4038)**

- This bill would expand background checks on Iraqi and Syrian refugees seeking to enter the United States. Just two days after it was introduced by Rep. Michael McCaul (R-TX) on Nov. 19, it passed the House by a vote of 289-137, with almost all Republicans and 47 Democrats voting in favor. While it is currently under consideration in the Senate, the president has indicated that he would veto the bill if it also passes the Senate.

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## **Make the Most of Minimum Wage**

Some states do not require a minimum wage while others are poised to mandate a minimum wage of \$15 over the next few years. This makes the question of how to optimize the minimum wage a high priority for business owners. Labor costs make up a significant portion of a business' expenses and, depending on the industry, can be as much as one-third. With labor taking up so much of a business' overhead budget, how can small firms make the most of a higher minimum wage?

### **Establish a Baseline**

Whether a higher minimum wage is being proposed, scheduled to begin next year or increase on an annual basis, the first thing a business should do is examine its current state of operations. Study cash flow figures, profit margins and hiring projections for the next year. Once you've established an accurate and current financial picture, consider some adjustments moving forward to accommodate a higher minimum wage.

### **Look for Efficiency**

While an increase in minimum wages often can't be controlled, look for efficiencies among existing staff to offset additional hiring or increased hours for current workers. In an office setting, a business could set higher expectations for mailroom workers to process more packages or for telemarketers to convert more calls into sales. Those who use the Internet at work can have limits placed on access to social media and news websites to minimize time spent on non-work related activities.

### **Automate or Personalize?**

Consider how you can use technology to complement the workforce to help build a more efficient business. The following automated technologies may be able to reduce labor and

marketing costs:

- Help callers route their calls without a receptionist by implementing an Interactive Voice Response (IVR) system
- Integrate an online booking system into your business website
- Use a location-based marketing app to passively target customers within a defined area

These are just a few examples of how limited resources can be allocated to deal with a higher minimum wage. While human resources can't be replaced in all tasks, there are many benefits to using automation beyond the increase in direct wages, such as additional savings from training and recruiting costs, payroll taxes, health insurance premiums, retirement packages, workers' compensation insurance costs or litigation from a disgruntled employee.

### **Balance Prices and Labor Costs**

You also may want to consider how much to increase efficiency through automation compared to the customers' experience and expectation of personalized service. One way to accomplish this is to survey your customers to see what they might like automated. For example, would customers like to speak with a receptionist, but still book online? Using surveys is an effective tool because it helps understand your specific customers, not an entire population. Younger generations, such as millennials, may be more likely to use mobile devices for banking and communication. However, using an automated system to book an appointment or make a payment might not be the first preference of the entire millennial generation. Conducting a survey can help determine the ideal human and automation ratio.

The minimum wage is a contentious topic that cities, states and Congress will likely debate for the foreseeable future. While the matter will be argued in city councils and state and federal legislatures, business owners may wish to explore what human resources and technological options presently exist that offer viable options in the wake of higher mandated minimum wages.

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### **Stock Market: What's in Store for 2016?**

Stock market predictions for the coming year hit the newswires and headlines every December as predictably as the arrival of Santa Claus in the local mall. Although stock market gurus warn against trying to time the market, few can resist the chance to look into the crystal ball. Here's an overview of what's percolating in the commentary arena.

#### **More of the Same**

Many analysts are forecasting that 2016 will be much the same as 2015, with the market staying positive but not making significant gains. Apart from the dipping and diving in August and September, investors have seen very little in the way of significant market gains or losses in 2015. By the end of November, the Standard & Poor 500 index was showing a year-to-date gain of 1.3 percent. This modest increase mirrors that of the U.S. economy, which is expected to grow by about 2 percent over the next year. On a global level, investment analysts are predicting lackluster economic performance for the European and Chinese markets. Stock valuations in general are expected to stay on the high side. Some investment pros note that buying opportunities exist in certain sectors, and that individual investors might want to rebalance their portfolios in light of the poor performance of energy companies (following the descent of oil

prices), and the fact that economic recovery in Europe and Asia predominately lags behind the U.S. economic rebound.

### **The Wild Card**

Like a broken record, predictions about the Fed's long-anticipated increase in interest rates continue as 2015 draws to a close. Having been consistently wrong in predicting increases throughout 2015, now investment analysts are forecasting higher interest rates in 2016. A few were still looking for a December rate hike, but geopolitical concerns including the downing of a Russian jet near the Syrian border and Europe's burgeoning refugee crisis combine to make this unlikely. The Fed's quantitative easing program - which has kept rates near zero for nine years to help spur economic growth - has done its job. Ironically, some commentators who worried about the possible effect of interest rate increases on stock prices are now expressing concern that failure to raise rates is creating market anxiety. They believe further delays by the Fed could cause U.S. investors to second-guess the real strength of the nation's economic revival.

### **Interest Rates**

Opinions may vary as to the timing, but there does seem to be some broad agreement on the good and not-so-good effects of increased interest rates.

- People who have saved money in bank CDs and money markets will benefit from better returns (after suffering negligible gains for some nine years). Not surprisingly, consumers (including home buyers) and businesses will pay more interest on loans. Likewise, companies with strong balance sheets and consistent earnings should withstand any changes better than those whose finances are not so solid.
- Some stock sectors will benefit from interest rate increases - notably banking and financial institutions. Whereas some - like real estate investment trusts - usually suffer when credit becomes more costly.

Whatever the new year brings, investment gurus stress the need for long-term commitment and periodic reviews of portfolio performance.

The comments above are general in nature and are not intended to replace specific advice from your expert tax and investment advisors.

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## **Technology: Leveraging Holiday Website Traffic**

E-commerce is a major factor for most businesses, but never more so than during the holiday season. Online sales figures continue to climb - increasing by a whopping 15 percent in 2014 to reach more than \$53 billion. Here are a few simple ways to help ensure that the people who visit your website during the holidays leave your site as customers.

### **1. Make the experience convenient and navigating your website easy**

If you're marketing specific seasonal products or services, make it easy for potential customers to find those particular products. Don't make visitors hunt down your special promotion items. If

consumers have to work too hard to locate what they're seeking, they'll abandon your site for one that is more user-friendly. On that note, it's critical that your website is also mobile user-friendly. More and more consumers are using their smart phones and tablets to buy things online. Run the mobile-friendly test provided by Google on your website and make any modifications needed as quickly as possible. If consumers can't access your website easily and quickly via their mobile devices, they'll turn to someone who can provide them with a smoother experience.

## **2. Pick up the pace of your sales cycle during the holiday season**

Make sure your holiday offers are time-sensitive and come with a sense of urgency. Encourage consumers to respond quickly to offers by establishing expiration dates and including compelling call-to-action incentives. If you use follow-up tactics (direct promotional offers to visitors who abandon their shopping carts or to those who peruse but don't buy) to attract visitors to return to your website, recognize that you can follow up sooner and a little more aggressively during the holiday season. Your potential customers are actively buying products like yours during this period - and time is short. Get special incentives like free shipping and special discounts out post haste to entice them back. Re-marketing programs are also a very useful tool during the holidays. These allow you to follow your website visitors once they depart your site with targeted pop-up ads showing the items they just viewed on your website. Keeping the products they viewed visible as they surf the Internet is a good tactic to woo consumers back.

## **3. Add more customer service features to your website during major shopping days**

If you don't offer live chat on your website, consider adding this feature during the peak shopping days of the season. And if you do offer this feature, consider expanding the hours your service is available. Answering queries promptly can help maximize sales. Also consider targeting visitors exiting without completing their purchases with a simple message asking if they need help or have questions.

Christmas comes but once a year. Smart businesses adapt their marketing and sales tactics accordingly to reap as much benefit as possible from the buying season.

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## **TIP: Energize Your Workplace**

Business challenges and setbacks - or even long winter days and gloomy weather - can conspire to sap employee motivation and productivity. Frequently, there are many factors involved. Some require proactive approaches to motivating and encouraging staff, and some can be as simple as a reorganization of work spaces. Take a look at the following ideas to see if you can ignite more excitement, energy and enthusiasm in your workplace.

### **Motivation During Tough Times**

Perhaps your firm's success has attracted more ambitious projects that have created larger workloads. In the long term there will be a great payoff for everyone, but right now new hires aren't in place to alleviate the load and employees are tired. Alternatively, maybe your sector hit a cyclical downturn, and employees are anxious about job security and need a shot of optimism. In either case, consider the following:

- Break down onerous projects into components with realistic time frames.
- Put everyone in the picture. Let them know what to expect regarding workflow and timeframes. Be realistic. Don't sugar-coat, but remember to discuss positives as well as any negatives.
- Spell out the benefits (rewards) for employees - as individuals - as well as those that will accrue to the firm when the current challenges have been met. Keep in mind how an employee might view the situation and anticipate issues. Welcome questions from your employees.
- Celebrate often - like when interim goals are met - perhaps hosting a breakfast or a pizza party, or providing employees with weekend movie tickets for their families. On a regular basis, recognize an employee for an outstanding job or major achievement.
- Get in the trenches and be the example you want to see in others. Nothing motivates like the boss rolling up his/her sleeves and working as hard as or harder than the employees.

### **Work Environment**

People can be affected a great deal by the light, color and natural elements in their work environment. Consider the following:

- Institute an office-wide cleanup and shredding party. Organize and store materials that create clutter. Shred materials that you are no longer required to keep.
- Reorganize your office space into configurations that reflect how your employees work. Set up a quiet zone for those who need to research or write in a peaceful environment. Establish an area for brainstorming or creative thinking away from phones and laptops and hand-held technology. Switch desks/cubicles to facilitate team-building.
- Make some décor changes. Install some low-maintenance houseplants. Paint the walls a fresh, light, cheerful color. Give employees a modest allowance to upgrade their work area - with a plant, a lamp, wall décor or shelves. Exchange the art on the walls for something new and interesting.
- Take advantage of natural light and sunshine. When possible, hold meetings in locations where windows provide natural light and pleasant views or outside in a sunny spot, if the weather permits.

### **Policies and Procedures**

Make sure your business procedures and directives don't hamper efficient, productive work flow:  
 - Ditch antiquated policies, entitlements and procedures - and communicate what you're doing and why. If you need some ideas on where to start, ask your employees.

- Count how many meetings are held each week. Make it a prerequisite that every meeting organizer:

- state the meeting's goal/objective;
- draft and distribute a (short) agenda - with input from participants - before the meeting;
- have a start and a stop time; and
- distribute a follow-up summary to participants (distributed within one business day) that details decisions made and deadlines established.

The ideas above should help you decide where to begin. Perhaps, they will trigger additional

ideas to invigorate your business.

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Strothman and Company | 325 West Main Street | 1600 Waterfront Plaza | Louisville | KY | 40202