



Strothman+Co

Financial
News
and
Views

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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Technology: Ready or Not, Microchip Card Payment is Here to Stay

If you travel internationally for business or pleasure, you may already know that magnetic strip credit cards are considered something of an anachronism in many other countries. Offering a magnetic strip card when making a purchase in Europe or Canada frequently requires the business owner to take your card and input the data manually, or revert to older technology to process the transaction. The "new" EMV (Europay, MasterCard and Visa) microchip system has been in place for years elsewhere, and as of Oct. 1, major card companies want to make it the standard here.

You have probably already received new cards embedded with a small metallic rectangle. For a consumer, the switch-over is relatively painless, but for companies - especially small businesses - the shift requires an investment in new technology or more financial liability for some fraudulent charges.

Here's what's at stake for cardholders and business owners:

Fraudulent Charges

Banks and businesses lost an estimated \$16.4 billion worldwide last year due to fraud. The United States - which represents about 21 percent of the world's volume of transactions - is responsible for almost half of these losses. To force the switch to a more secure system, major card companies gave U.S. companies a deadline to adopt the more secure EMV processing system.

Those who don't make the switch will bear increased risk and be liable for losses that were formerly absorbed by the card issuers. Visa was first to issue the Oct. 1, 2015 deadline four years ago, and other major credit companies quickly followed suite. The deadline is not universally applied - gas stations have been given an additional two years to bring their pay-at-the-pump stalls up to the new standard.

Ready or Not

It's not your imagination. You haven't heard much about this issue because few national retailers have EMV-ready terminals ready to go. Mega-merchants like Target and Walmart claim to be ready, but many others are not. Estimates indicate only about 25 percent of all American merchants will be able to process the new EMV cards by the October deadline.

Reality

Industry analysts acknowledge that despite the October upgrade deadline, complete migration to EMV systems will take years. Surveys of the small business sector, in particular, suggest that more than half of business owners are unaware of the approaching deadline and, among those who knew, almost 25 percent did not plan to make changes to meet the October deadline. New hardware is costly, and migrating to a different system has proven more complicated than some business owners expected. In some instances, delay in adopting the EMV payment processing system is due to circumstances beyond the individual retailer's control. Some can't act until their providers/suppliers add EMV capabilities. Others might feel the risk of covering possible losses is manageable and preferable compared to the cost and hassle of upgrading their current payment systems.

Smarter Charitable Giving

Many donors who give substantial sums regularly or on occasion often make the same mistake - not having a plan. Donor-advised funds offer a great way to give with a plan.

Donor-advised funds are charitable giving vehicles administered by a public charity. They are created to manage charitable donations on behalf of organizations, families or individuals. In order to participate in a donor-advised fund, the donating individual or organization makes an irrevocable contribution of cash, securities or other financial instruments. While the donor surrenders ownership of whatever they place in the fund, they retain advisory privileges over how their account is invested and how it distributes money to charities. Further benefits of a donor-advised fund include flexibility in grant recommending and the ability to remain anonymous.

Some of the key characteristics of donor-advised funds are:

- Upfront tax deductions for cash donations of 50 percent and 30 percent for appreciated assets
- Eliminating capital gains on long-term appreciated stocks and other securities
- The ability to accept a variety of assets, including nearly any type of financial instrument
- Professional investment management services
- The ability to name successors

An effective approach to donor advised fund giving involves the following four-part plan:

1) Create A Mission Statement. Fewer than one in three donors who gift greater than \$100,000 a year have a mission statement or written goals for giving. Those who give \$25,000 or less per

year plan even less often - only 16 percent of the time. Mission statements help provide a clear direction on what grants to make and what to decline. A mission statement does not need to be long or complicated. Even just a few sentences that encapsulate your giving philosophy can help keep plans on track and make sure your money goes to the type of causes you care about.

2) Make An Action Plan. Research charities of interest, create a giving budget and explore ways to leverage giving by establishing legacy gifts.

3) Test Potential Grantees. Learn more about the organization's programs, goals and needs with questions such as, "What is your most successful program and why?" You can also assess their resourcing and opportunities by asking things like, "What do private donations allow you to do that other funding sources do not cover?" This will help you give effectively and efficiently.

4) Maximize Your Impact. Donors who learned about giving from their parents are more likely to pass it on and teach their own children the importance of giving. Ways to instill and cultivate the importance of giving in children can include things such as providing an allowance allocated to three parts: spending, saving and giving - or family traditions such as volunteer days.

Ultimately, having a plan, mission and purpose are what will drive your giving to maximize its potential impact. Donor-advised funds are not the only way to go for big or regular donors; however, they offer a flexible structure and many management and tax advantages over giving directly to charities on your own.

Tip: Best Practices in the Workplace

Ask business owners what's most important for their success and the majority will tell you it's all about to providing the best customer service. How do savvy entrepreneurs translate this into a business strategy and what habits do they adopt to keep customer satisfaction first and foremost? Long-term business owners often identify the same key factors as vital to success. The list may surprise you:

1. The Early Bird Catches the Worm

Despite flex-time, working remotely, and other innovations spawned by mobile technology, most successful entrepreneurs are early risers who get to their desks early and relish the opportunity to identify challenges and think creatively before everyone else clocks in.

2. First Things First

A logical extension of No. 1: Instead of beginning by opening up email and social media accounts, build your daily priorities around client needs. Start out by identifying what each customer or business partner needs today (e.g. timely information on a query or problem, an update on delivery dates or prices, or a heads-up on some breaking industry news). This way you are less likely to allow Twitter, instant messaging or other intriguing bits of information to distract you from your primary objective - anticipating and servicing the needs of your customers. True client service specialists never stop trying to provide more value for their clients. Their success is contingent on meeting deadlines and respecting budget parameters whilst exceeding expectations.

3. Listen More, Talk Less

Successful business leaders continually ask for feedback and listen to what people (customers, suppliers and employees) are really saying. If you pay attention to what customers are saying (or

not saying), you may be able to spot unfulfilled needs, upcoming opportunities, or obstacles, and better understand what your clients value most. Being open to observations and opinions from others requires us to make a deliberate effort to set aside defensiveness and be willing to use constructive criticism to work better and smarter in the future.

4. See and Be Seen

Workplace technology lets us do a lot without interacting one-on-one with others. It's easy to become a slave to efficiency, but it isn't wise. Make the rounds and talk to your employees. Invite customers to lunch and attend industry tradeshows and seminars. Challenge yourself to keep expanding your network, and take the time to continue to meet new business contacts even when business is brisk.

5. All Work and No Play

It is almost impossible to remain fully focused at work and engaged with customers if you don't take sufficient down time to rest and recharge your batteries. We all know that eating well, exercising and getting enough sleep are vital, but don't deprive yourself of new experiences and hobbies that provide variety and interest to your life.

The ability to continually meet customer needs and improve responsiveness comes from a variety of sources. Successful entrepreneurs tend to actively nurture good work relationships and preserve balance in their work life.

Stock Market: U.S. Monetary Policy Takes Center Stage

The markets continued to test investors' mettle in September; however, the big questions remain the same. Is a bear market about to start, and will the Fed finally allow interest rates to creep out of the close-to-zero range? As September began, market pros and individual investors pondered the possibility that the bull market might be out of steam after a lengthy six and a half year run, and everyone braced for the Fed to announce a much anticipated rate hike - considered by many to be a sure thing in September. Over the following four weeks, all bets were off and volatility was the only sure thing, with major indices rallying in response to good news and then succumbing to losses as traders dithered in response to uncertain global news.

Here's an overview of factors influencing the stock market and the financial sector:

The Federal Reserve

U.S. investors may have been lulled into thinking the Fed's decision on when to raise interest rates was all about the recovery of the U.S. economy, but September's events reminded us that global economic conditions remain a significant consideration. The same events - economic slowdown in China and financial woes in Europe and emerging markets - that roiled the markets were cited by the Fed's policymakers as the primary factors in the decision to hold off on even a modest rate hike. The huge socioeconomic impact in Europe of the migration of hundreds of thousands of Syrian refugees (the largest displacement of people since World War II) added more uncertainty in the Eurozone. Adding to the mix of global concerns, the fall in commodity prices has hit countries like Brazil, Russia and Indonesia hard; and in the Middle East, oil producers are feeling the pressure of falling crude oil prices. Not everyone agreed with the Fed's decision to delay "normalizing" interest rates. Some analysts believe that the Fed has provided sufficient advance notice of its intentions to raise rate, stressing that increases will be gradual and that economic planners worldwide have already "priced in" such plans. Others endorse the Fed's decision in the belief that the time was not right for change as so many emerging markets are

reeling from the impact of socioeconomic crises, weak currencies and mounting debt.

Bull or Bear

Despite announcements of its imminent demise, the bull market continued to show sufficient momentum to continue on its path. The news on the job front remains good, and revisions to second quarter growth statistics were positive, with second-quarter GDP revised upward to 3.9 percent from 3.7 percent. These economic indicators suggest that a return to recession in the United States is not imminent. The obvious cloud on the horizon is corporate profit stagnation. Despite a growing economy, U.S. companies are not seeing profit margins increase, which means earnings are expected to shrink.

Market Moves

Many analysts anticipate some continuation of September's rollercoaster ride into early fall. We ended September with global pressures taking a toll on major indices as investigations into Volkswagen's diesel engine scandal hit the headlines. Within market sectors, biotechnology took a hit when presidential candidate Hillary Clinton noted that she planned to address price gouging among specialty drug makers.

Despite recent market gyrations, the wisdom of experienced market pros remains consistent. They urge investors to disengage from the drama of intra-day market volatility and focus on the end game.

The commentary above is intended as general commentary and is not a substitute for advice from accounting and investment professionals.

Employee Background Check Tips

Performing due diligence is the cornerstone of any business decision, including who to hire. When hiring an employee or an independent contractor, running a background check - which may include a criminal background check, work and educational history, among other components - can help ensure your next hire will be a good fit. But what are some obligations that employers must follow?

How to Obtain Permission to Run a Background Check

While background checks vary according to state and federal laws, including the Federal Credit Reporting Act, there are some general recommendations and legal requirements that must be followed. Employers must request the authorization from each prospective employee on a separate document. Employers are also required to inform potential candidates they have the right to learn about the background checks if interviews with other individuals are included. Guidelines also require employers to produce a hard copy of the background check results for the candidate prior to any negative determination with respect to employment, and advise each candidate as to their rights and the protocol they should follow to challenge any information that is in error or is incomplete.

What's Checked

Depending on state laws and the individual candidate's job role, a background check can be quite expansive. Criminal history is a major component of a background check, though the types of crimes disclosed and time frame covered can vary by state. Credit checks also may be part of an employee background check, which may provide a candidate's payment history or defaults, including any legal action resulting from lack of payment.

An important component related to checking a candidate's credit history is the nature a negative indicator. For example, is it due to a single late payment of a utility bill, a medical emergency that resulted in large bills, or the result of a large credit card bill sent to collections for non-payment which ultimately led to court proceedings?

The latter scenario may be interpreted as an irresponsible or untrustworthy candidate - and possible predictor of how they may perform on the job. Other records available in a background check may include the candidate's education, professional licenses, driving record and drug testing, among others.

Background Check No No's

It's against the law to perform a background check on candidates and current workers when employers are exclusively seeking their country of origin, gender, age (40 years and older), physical or mental disabilities, and race, among others.

Complementing the Background Check

Whether the background check is run in-house or through a third-party contractor, another way to check a candidate is to scrutinize their resume and online presence. Calling a candidate's college or university to verify a degree and going online to verify if a license is active are two easy ways to determine a candidate's trustworthiness. Performing an online search for the candidate's social media presence can determine their judgment based on posted photos and comments. You also may be able to determine if he or she is a well-rounded person based on extra-curricular interests and hobbies.

Mistakes to Avoid During a Background Check

Mistakes and oversights are known to occur during a background check. Checking records exclusively through national or federal criminal databases can miss records in state, county, and town or city files. Performing background checks on permanent staff is the norm for many companies, but a business also can have its files and physical premises compromised through independent contractors or seasonal employees.

Crossing your t's and dotting your i's during an employment check can vet an employee to make sure they are a good fit for the organization.

Retiree Healthcare Plans

According to the Employee Benefits Research Institute, spouses retiring in 2014 who take prescription drugs and want a 90 percent chance of having enough money for medical expenses throughout retirement needed an extra \$326,000 in savings to pay for it.

Unfortunately, just as rich pension plans have fallen by the wayside, employer-sponsored retiree healthcare benefits also have undergone a similar fate. Because pensioners are living longer, employers footing the bill are on the hook for the medical needs of retirees for an additional 20 years (or more) than in the past.

Earlier this year, the Supreme Court ruled that healthcare pension-type plans originally negotiated as part of a collective-bargaining agreement that has since expired may not have to continue providing healthcare benefits for the life of former employees. No longer are retiree healthcare benefits presumed to continue for life unless there is specific language to this effect in the plan documents. This ruling could impact up to 50 percent of collective-bargaining labor agreements

that were drawn up in the 1960s and 1970s, and could result in some retirees today having healthcare benefits reduced or even eliminated.

Retiree Medical Trust

Today, employers are transitioning to different types of retiree healthcare plans in order to offset their risk of providing benefits for long-living former employees. Among them is the Retiree Medical Trust, which is a fund established to reimburse the medical expenses of retired workers. Once the fund is established, the employer hands over management to a third-party administrator, an attorney, an actuary and a financial investor. Money contributed to the trust is not subject to income taxes; interest earned by the trust investments are not subject to taxes; and when money comes out of the trust to pay for retiree medical expenses, it is not considered taxable income.

VEBA

Another type of plan is known as a VEBA, or Voluntary Employees Beneficiary Association. This is an association funded by workers and/or their employers that pays for healthcare benefits. The VEBA plan sponsors may deduct contributions made to the fund, and workers do not pay income taxes on amounts contributed on their behalf. In addition, all interest earned by the fund and withdrawals made to pay expenses are tax-free.

401(h)

An employer may establish a 401(h) plan as a pension or annuity to pay sickness, accident, hospitalization and medical expenses for retired employees, their spouses and dependents. Though similar to a pension plan, it must be established and maintained as a separate account. Employer contributions are tax deductible, and retirees pay no income taxes on benefits withdrawn to pay for medical expenses.

HSA

Employees who maintain a high deductible healthcare plan (HDHP) while working may be eligible to open a Health Savings Account (HSA). This tax-free savings account can be used to pay for out-of-pocket medical expenses throughout their career or after they retire. The funds grow tax-deferred and can be withdrawn tax-free for medical expenses. Once the account owner turns age 65, funds can be used for any reason - not just medical expenses. However, when a worker/retiree enrolls in Medicare, he may no longer contribute to his HSA account - but he can continue withdrawing from the funds already accumulated.

Medicare

Retirees should enroll in Medicare when they become eligible even if they have another type of plan sponsored by their employer. As a general rule, medical expenses are reimbursed first by Medicare before any other retirement healthcare plan kicks in.

According to the Kaiser Family Foundation, in 2010 (the latest data available) Medicare beneficiaries spent an average of \$4,734 in out-of-pocket healthcare expenses, including premiums for Medicare and other types of supplemental insurance and costs incurred for medical and long-term care services. Clearly, establishing another type of healthcare plan can help retirees from having to pay tens of thousands of dollars toward medical expenses throughout retirement.

Congress at Work: Parks & Reservations

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.

National Forest Small Tracts Act Amendments Act of 2015 (H.R. 1214) - This bill passed in the House on Sept. 16 and goes to the Senate next for consideration. Sponsored by Rep. Mark Amodei (R-NV), the Act would allow the sale of small portions (parcels of 40 acres or less) of national parks land. The value of the land must be less than \$500,000 and it must be deemed otherwise inaccessible, physically isolated or to have lost its "National Forest character."

Western Oregon Tribal Fairness Act (H.R. 2791) - This bill would require that 17,519 acres of Federal lands be held in trust by the United States as part of the reservation for the Cow Creek Band of Umpqua Tribe of Indians, and that 14,408 acres become part of the reservation for the Confederated Tribes of Coos, Lower Umpqua and Siuslaw Indians - all located in Oregon. Sponsored by Rep. Peter DeFazio (D-OR), this bill passed in the House on Sept. 16 and goes to the Senate next for consideration.

Defund Planned Parenthood Act of 2015 (H.R. 3134) - Sponsored by Diane Black (R-TN), this bill places a one-year moratorium on abortions other than those performed due to rape, incest or in which a physical condition would endanger the mother's life if it is not performed.

This bill prohibits all funding to Planned Parenthood Federation of America Inc. or any of its affiliates or clinics unless they agree to the cessation, or monies will have to be repaid to the Department of Health and Human Services. This bill, which was assigned to a congressional committee back in July, is expected to be considered by the House in late September.

Born-Alive Abortion Survivors Protection Act (H.R. 3504) - This bill would require any healthcare practitioner present during an abortion when the fetus is born alive (breathes or has a beating heart, pulsation of the umbilical cord or definite movement of voluntary muscles) to provide life-continuation care and ensure it is immediately admitted to a hospital. Failure to do so would make the healthcare provider subject to a criminal fine, up to five years in prison or both. Moreover, any practitioner who commits an overt act that kills a fetus born alive would be subject to criminal prosecution for murder. This bill presently has 98 cosponsors (97 Republicans, 1 Democrat). On Sept. 15, it was assigned to a congressional committee for review before possibly sending it on to the House or Senate.

To establish a research, development and technology demonstration program to improve the efficiency of gas turbines used in combined cycle and simple cycle power generation systems (H.R. 2961) - Written and sponsored by Rep. Paul Tonko (D-NY), this bill requires the Department of Energy's Office of Fossil Energy to carry out a research, development, and technology demonstration program to improve the efficiency of gas turbines used in power generation systems. It also aims to identify the technologies that will lead to gas turbine combined cycle efficiency of 65% or simple cycle efficiency of 50%. The bill was assigned to a congressional committee on July 7, 2015 and moved to the House docket for consideration in mid-September.

RAPID Act (H.R. 348) - This bill would streamline the regulatory review, environmental decision making and permitting process for environmental review of a project, such as (1) determining the range of alternatives to be considered in environmental review documents, and (2) developing a schedule and deadlines for completing the review. The bill, sponsored by Rep. Tom Marino (R-PA), is under consideration in the House.

Don't Forget to Register for Our Upcoming Seminar!

Innovative Business Tax Strategies

Reduce Your Taxes and Increase Your Wealth

Thursday, October 22, 2015

Owl Creek Country Club
12400 North Osage Road
Anchorage, Kentucky 40223

Registration 7:30 AM

Seminar 8:00 AM - 10:00 AM

Refreshments Provided

Strothman and Company has one of the most extensive, sophisticated and qualified tax groups in the region. We provide innovative tax solutions to lower your tax obligation while ensuring you are compliant with the law.

This seminar will include a number of tax strategies to help you and your business take full advantage of what the tax law provides. We will discuss ways to interpret the tax laws to your best advantage and structure your business to take full advantage of every opportunity to minimize taxes.

Ray Strothman, Partner, Joe Johnston, Tax Partner and Quinn Hart, Senior Tax Manager, will lead this seminar. Ray has over 30 years of practical experience providing innovative and creative tax strategies for his business clients. Joe has focused on innovative tax planning and consulting in his 20 year career, helping clients arrive at their best tax strategies and empowering them to make informed decisions. Quinn works with many business owners to help them plan their tax strategies and minimize their tax liability. In addition, we will have a guest speaker, Andrew Susemichel, President of E-Max, who will discuss business energy credits.

Please invite friends and associates to attend this **FREE** seminar. This Strothman and Company seminar is designed to qualify for two hours of Continuing Professional Education (CPE) for CPAs.

Make your reservations by October 19, 2015 by completing the registration form at the bottom of this page or by calling Stephani at 502.585.1600.

Seminar Registration!

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