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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Special Announcement

Strothman and Company Announces Six New Partners!

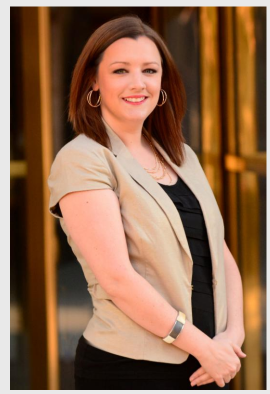
Strothman and Company is pleased to announce the addition of six new partners and one principal, effective January 1, 2016. Bill Meyer, Managing Partner, stated that the firm's growth, and expansion into new service areas, caused the need for additional members of the leadership team. "We say that our firm is big enough to handle it, but small enough to care. That means we need leadership from experienced, highly qualified professionals to provide the hands-on service clients expect. I am highly confident that this next generation of leadership positions our firm well for the future."

New Partners Include:

Darren Forish

Darren began his career working as an accountant in industry, and then joined Strothman and Company's Entrepreneurial Business Solutions ("EBS") Group. He has degrees from both Transylvania University (biology) and the University of Louisville (accounting). He is a Certified QuickBooks ProAdvisor and a Certified Valuation Analyst. Darren serves as the Partner-in-Charge of the firm's EBS Group.

Quinn Hart



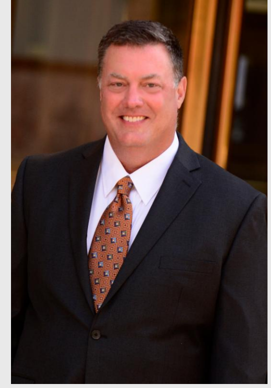
Quinn began her career as an intern at Strothman and Company. She earned her accounting degree at the University of Louisville. Quinn embodies the firm's service philosophy by being an advocate for her clients. She is active in professional organizations such as the Network of Entrepreneurial Women. Quinn is a Tax Partner, and is the Partner-in-Charge of the firm's Professional Services Industry Group.

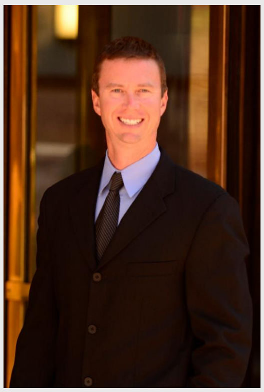
Jeanna Jones

Jeanna began her career at Strothman and Company 20 years ago, and serves entrepreneurial businesses, nonprofit organizations and governmental entities. She earned her accounting degree from Indiana University, and is a board member and the Chair of the Finance Committee of Goodwill Industries of Kentucky. Jeanna is the Partner-in-Charge of the firm's expansion into Indiana.

John Kennedy

John began his career at Ernst and Young, and joined Strothman and Company 25 years ago. He is a graduate of the University of Kentucky. John serves entrepreneurial businesses and nonprofit organizations. He has a specialty in businesses owned by Employee Stock Ownership Plans, and is also active in many merger and acquisition projects for clients. John is the Partner-in-Charge of the firm's quality assurance system.

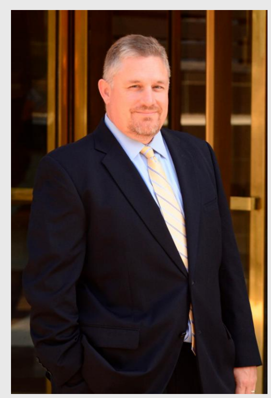




Rory Satkoski

Rory joined Strothman and Company after working in the chemical industry for several years, and for another CPA firm. He has degrees from Hanover College (chemistry) and Indiana University (MBA). Rory serves as a Partner in our EBS Group and as the Partner-in-Charge of the firm's Business Valuation and Litigation Support Group. He is a Certified Valuation Analyst.

Jim Stevison



Jim began his career as an intern at Strothman and Company, and passed the CPA exam on his first attempt. A graduate of Bellarmine University, Jim has managed a wide variety of assurance engagements for firm clients for nearly 20 years. Jim is the Partner-in-Charge of the firm's Assurance Group, which provides audits, reviews and compilations as well as specialized services such as Agreed Upon Procedures ("AUP") engagements and Service Organization Control ("SOC") reports.

Jennifer French

Jennifer French has been promoted to the position of Principal. A Principal is a subject expert in one or more areas. Jennifer, a graduate of Western Kentucky University specializes in audits of governmental organizations and employee benefit plans.

Strothman and Company was founded over 30 years ago and is the fifth largest Kentucky-owned CPA firm. Ray Strothman, the firm's founder and Chairman, stated that he was proud of the achievements of the above professionals. "I'm as active in the firm as I have ever been, but it is good to know that we have next-generation leadership in place."

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Noteworthy Tax Changes for the New Year

The tax extender bill has passed and been signed by the president, giving individuals and businesses resolution on many items that were set to expire. Unlike earlier tax extender bills, a number of provisions have been made permanent or extended for a number of years - giving a measure of certainty. Below is a summary of select provisions from the new bill.

Permanent Business Provisions

- R&D Credit - Starting in 2016, businesses with less than $50 million in gross receipts are allowed to benefit from this credit to set off the alternative minimum tax. Additionally, certain start-ups that might not incur an income tax liability could be allowed to balance payroll taxes with this credit.
- Section 179 Deductions- Previously set to expire and revert back to significantly lower levels, Section 179 deductions are held at their previous levels, entitling businesses to deduct up to $500,000 of the cost of qualifying asset purchases. The new deal also indexes the deduction limit to adjust for inflation in future years.
- The shortened 15-year life of qualified retail, restaurant and retail improvements remains instead of reverting back to the longer 39-year recovery life. This has been made permanent.
- Section 1202 permitting taxpayers who sell eligible small business stock held longer than five years to exclude 100 percent of the gain (subject to limitations) was made permanent instead of reverting to previously reduced exclusion levels.

Individual Provisions Made Permanent

- Enhanced child tax credit - Since 2009, parents have been entitled to a refundable credit of up to 15 percent of earned income in excess of $3,000, in addition to the $1,000 credit per qualifying child. Starting in 2017, this threshold would have jumped back to $10,000; however, the lower $3,000 threshold was made permanent.
- Since 2009 taxpayers have been allowed a $2,500 credit for up to four years of post-secondary education expenses subject to certain phase-outs. Starting in 2017, however, the credit was set to revert to a maximum of $1,800 with lower phase-out thresholds. The tax extender bill makes this credit permanent at the $2,500 level.
- Teachers Tax Credit - the teacher's tax credit is now permanent. Educators are entitled to the

$250 deduction for K-12 supplies paid for personally. Furthermore, the deduction is now indexed for inflation.

- The itemized deduction for state and local sales taxes in place of income taxes was made permanent.

- The bill permanently extends provisions encouraging charitable donations, including:

  -Charitable contributions of real property for conservation purposes are deductible.
  - Taxpayers over 70.5 years old can make donations directly out of an IRA without being taxed on the amounts, up to $100,000.

Provisions Extended Through Dec. 31, 2019

Not all of the provisions were made permanent. The new markets tax credit was extended only through the end of 2019. Additionally, bonus depreciation was extended through 2019 in a three-tiered fashion as follows: the current 50 percent immediate expensing will be extended through 2015, 2016 and 2017 before reducing to 40 percent in 2018 and 30 percent in 2019. After 2019, bonus depreciation provisions disappear completely.

Provisions Extended Through Dec. 31, 2016

- The tuition deduction allowing a maximum deduction of $4,000 for higher education costs will continue.

- Taxpayers may continue to deduct up to the first $15 million of costs for qualified film, television and live theater productions.

- Certain energy incentives were extended, including a $500 credit for the purchase of certain non-business energy-efficient property as well as up to a $2,000 credit available to the manufacturer of energy-efficient homes.

Delay of Obamacare Provisions

As part of the tax extender bills, the so-called Cadillac tax on high-cost, employer-sponsored health insurance is delayed from 2018 to 2020.

Stock Market: The Impact of Higher Interest Rates

With more than 4,700 institutions across the country granting two- and four-year degrees, according to the National Center for Education Statistics, the need for post-secondary education is in high demand. However, with the advent of the Internet, the need for the traditional brick-and-mortar institution to earn a degree is being questioned more and more. Whether it's online continuing education, crowd-sourcing education or other forms of e-learning, brick-and-mortar colleges might not be part of the future of education.

Forces Driving Higher Education Beyond Brick-and-Mortar
Due to the combination of technology increasing content sharing and the ease of movement of information, the ability for more people to learn skills has changed forever. Whether it's the ability to work remotely, an inability to obtain transportation or an economic necessity for lower-cost learning, online learning has captured increased student demand. Specifically, there are certain segments of the society to whom the trend is attributable. While each individual's circumstances is different, they

are often constrained for time and/or economic resources due to one or more of the following:

- Working a full-time job
- Having to care for a child or elderly loved one
- Not having a partner to care for a minor child
- Putting off college for at least 12 months immediately after high school

Colleges May be Organically Going Digital
While some students have to travel across state or across country to have a hands-on college experience with cutting-edge scientific tools or engineering technology, more and more students might not need to be on campus because of increasing forms of online instruction and social interaction.

Students who transition from brick-and-mortar institutions or skip the traditional method altogether may benefit from advantages the so called e-learning revolution provides. For example, lectures and notes (or transcriptions) of each class can be made available for students. Whether a student attended the class and wants to re-watch the class presentation, or wants to focus on the lecture and not take notes, e-learning provides students the ability to learn at their own pace. Similarly, students and their classmates (those studying within the same program, but not the same classes even) may be permitted to collaborate or simply exchange ideas to get a virtual college experience through digital forums.

Benefits of Online Education for Semester Abroad Students
For students studying abroad, distance education can help students fulfill credit requirements toward their degree if the cooperating university doesn't offer an appropriate course on campus.

Beyond the University for Personal and Professional Development
Other forms of online learning for entrepreneurs or employees looking to keep their certification can be accomplished through online Continuing Education credits. Newer forms of online education include manufacturers using YouTube videos (with proper licensing for commercial use) for new product demonstrations and online learning modules through crowd-sourcing to learn coding. These are just two examples to learn beyond the traditional online university.

Whether an individual is pursuing a two- or four-year degree or they are simply looking to brush up and improve their skills, the future of the online university and learning points to more and more forms of digital adoption.

Tax Considerations When Delaying Social Security

The timing of when you take your Social Security can have a potentially significant impact on your overall tax strategy during retirement. While each person's case is unique, delaying Social Security often tends to be the best move. Generally, delaying Social Security gives you a better ability to manage tax brackets when you are no longer earning a salary. Let's look at the details behind the decision.

Consider the case of a 62-year-old couple who is married and files taxes jointly. Also, assume that both are no longer working and have not yet claimed Social Security benefits. They could potentially spend $20,600 from tax-qualified accounts up to their standard deduction and personal exemption. Further, they also could realize an additional $74,900 of qualified dividends and long-term capital gains and qualified dividends from brokerage accounts while still having a federal tax bill of zero. This is due to the 0 percent long-term capital gain and qualified dividends rate for taxpayers in the 10 percent and 15 percent tax brackets.

If such a couple is wealthy enough, keeping their tax bill at or near zero may not be necessary or advantageous. In cases such as this, it would be beneficial to use these early retirement years without both a salary and Social Security benefits taken to make additional Roth conversions from their traditional IRAs. While engaging in such a strategy would require higher taxes in the near term (as well as trigger tax on the previously untaxed qualified dividends and long-term capital gains from above), there might be much less tax to pay later on.

Tax bracket management is also relevant because Social Security benefits can be taxable. Couples who are married and filing jointly may pay income tax on up to 85% percent of their Social Security benefits once their provisional income* is greater than $44,000. The taxability of Social Security benefits is an important concept for people to keep in mind since the provisional income threshold is not indexed for inflation. As a result, under the current system more and more people will eventually end up paying income tax on their Social Security benefits.

Delaying Social Security until age 70 reduces taxable income and provides more room for Roth conversions and realizing long-term capital gains on taxable accounts. Additionally, subsequent Roth distributions do not count when determining how much of Social Security is taxable. As a result, if you have the capacity to get a large portion of your traditional IRAs converted to Roth accounts before age 70, you can enjoy significant tax savings. Doing so can allow you to pay taxes at lower marginal tax rates and may also help later to lower the amount of required minimum distributions.

Overall, there are many potential tax benefits to delaying Social Security. The actual potential depends on a number of factors, such as overall income levels, sources and types of non-wage income and the composition of one's retirement accounts. As a result, if you have the cash flow to enable putting off Social Security benefits, it might be worth talking with your tax advisor.
*Provisional income is defined as your adjusted gross income plus one-half of Social Security benefits plus tax-exempt interest.

How Behavioral Finance Impacts Personal Investing

Financial planning can be intimidating, but personal financial planning is more like a puzzle you have to work out. That's because traditional finance assumes that markets are rational and that market participants always make unbiased decisions. Life doesn't work that way, and neither does financial management.

The reality is that every individual is a confluence of biases, emotions, influences and experiences - and all of those factors impact how we view the world and manage our own money. That's why some people are risk-takers while others are ultra conservative. So it's not enough to understand financial markets and products, you must also understand your own emotional processes, mental mistakes and individual personality traits as well as how they affect your decisions.

The factors that influence our financial decisions ultimately create the inefficiencies, anomalies and other inconsistencies that impact the financial markets and the economy. To help you gain insight into how your thoughts and actions affect your finances, consult with a financial advisor to help you understand how your personality traits, demographic and socioeconomic factors, household characteristics, cognitive and emotional biases, political viewpoints, and even religion might affect your financial decisions.

There are a few general steps that an advisor can walk you through to develop a plan to help withstand the force of your own personality from making irrational financial decisions. For example, during peaceful market periods, discuss what individual strategies should be followed when the financial climate becomes volatile.

According to Victor Ricciardi, a behavioral finance and risk expert, the following are five things you should understand about your own investor behavior:

1. Over- and under-confidence are two factors that can lead to portfolio underperformance.
2. Mental accounting is when you focus on the detriment or attributes of a single holding, rather than viewing it within the context of your total, diversified portfolio.
3. Lack of self-control can lead us to spend money on vacations today that we could take when we're in retirement - with no specific date to return to work.
4. Anchoring bias is when an investor places too much value on the first piece of information that led him to invest in a holding and is unable to accept or process new information as it relates to that holding.
5. Trust and control - when working with a financial advisor, you must exhibit both. Trust his or her judgement but do not relinquish so much control that you place your financial future at risk.

Although behavioral finance is a relatively new concept, experts in the field agree that its tenets go a long way toward explaining why the markets frequently behave in an irrational manner, and how people can impact volatile performance. In other words, it pays to pay attention to how your behavioral biases, emotions and mental processes can affect your own financial decisions. Once you achieve this understanding, you can embark upon some very personal financial planning.

Tip: How Gamification Plays With Employees

The International Foundation of Employee Benefit Plans conducted a study that revealed when health and wellness programs are executed as part of a comprehensive healthcare strategy, the cost can generate a return on investment of $3 for every $1 spent.

When it comes to wellness, factors such as stress, inertia and overindulgence can play a huge part in why we don't do things we know are good for us. However, some workers might feel it's intrusive for an employer to try to influence good health. Their response may be to experience even more stress, inertia and overindulgence - because now they're expected to engage in healthier behaviors in addition to their work performance. This is why many companies have implemented a relatively new trend in wellness programs: gamification. Instead of setting up heavy-handed expectations and financial disincentives, they create a game out of adopting healthy behaviors.

Wellness gaming strategies have proven to be effective at engaging workers and motivating them to make changes in their behavior. This tactic generally involves three components: rules, rewards and social interaction/collaboration. For example, one company embarked on a companywide 10,000 steps walking program. Some employers pursued their goal as individuals, while others formed teams. Soon, employees were seen walking outside their workplace before and after work and during lunch hours. Individual and team goals were tracked and rewarded.

Some companies have introduced games that incorporate an immersion experience, where players are encouraged to role play by creating a game name and simulated personality. Some even develop their own game-generated catch-phrases to help stay motivated and share their enthusiasm for the game with others.

If you're familiar with video gaming, the concept of gamer tags and role playing are very similar. For example, a department head may call himself Head Honcho and his assistant, The Gatekeeper.

Departments may stoke the fires of competition to see who or what team reaches their fitness goals first. Rather than a daily chore or item that must be checked off a worker's to-do list, exercise becomes a shared and fun experience for employees.

Gamification typically incorporates social networking tools so that participants can track each other's progress and interact from both work and home computers, tablets and smartphones. This helps many workers stay engaged in healthy activities even away from the office, so they don't slack off over the weekend or when on vacation.

While early research has revealed positive results, the strategy is not without drawbacks. These drawbacks might include:

1. Impact on work productivity
2. Perceived infringement on personal time
3. Conflicts that can arise between competitive vs. recreational participants
4. Whether short-term rewards and incentives are effective at maintaining healthy behaviors over the long term

While fun and games may produce results in the short run, ultimately it's up to each of us to make changes to our lifestyle. After all, without intrinsic motivation, people tend to return to their regular (often unhealthy) behaviors when the games get old.

Regardless, one study revealed that more than three-fourths of employees say rewards provide the incentive to participate in an employer wellness program. Consider that workers who already live healthy lifestyles will do so whether you introduce a game or not. It's the ones that don't that you need to motivate, and gaming often provides the right type of incentive.

The following are some guidelines to consider when developing a wellness gamification strategy:

- Keep it simple, easy and achievable
- Points, levels and rewards help drive engagement, ongoing employee participation and healthier behaviors
- Periodically deploy new challenges to re-energize enthusiasm
- Make it easy to track and monitor progress
- Make it social - provide ways for employees to connect socially to share scores, talk about leader-boards, exchange tips/tricks and brag about their success
- Get C-level buy in and participation, if possible

Capture data to gauge the game's efficacy and use it to adjust the game to achieve ongoing results.

Encryption and National Security: Will Encryption Become Obsolete?

In light of the recent terrorist attacks, domestic and foreign governments have questioned how much access they should have to encryption keys and electronic backdoors. The debate of balancing the privacy of individuals and the need for law enforcement to have access to the exchange of information for public safety is once again on the table. How can encryption standards keep information safe from criminal hackers while balancing the right of the individual's privacy in the government's quest to maintain public safety?

Understanding the Risks in the Debate

The first step is to understand the upside and downside of increased access to computers and networks.

The primary contention for opponents of backdoor access for governments is that it would defeat security best practices, especially when it comes to perfect forward secrecy, where decryption keys are removed immediately after they are utilized. Another concern about putting in backdoors for public safety officials is that it would add another potential exploit for hackers to cause harm. In other words, code that's intended to be utilized by public safety officials to monitor criminal activity can also be used by criminals to cause harm on a targeted network.

Many proponents of backdoor access for encryption argue that while people have a right to privacy, public safety officials should have access to electronic communication in order to circumvent terrorists and criminals alike who use encryption through Virtual Private Networks (VPN), full-disk encryption programs and even popular mobile device operating systems.

Potential for Misuse

Just as encryption can be used for protection against hackers, it can also be used for illegal purposes. Vulnerabilities discovered by malicious parties or security researchers can also be used by state entities (or those acting in concert with state agencies) to spy on private individuals.

The potential for misuse by any organization already exists when a previously unknown vulnerability in computer code is used. One example is the alleged Israeli-American malware that meddled with the Iranian nuclear program. If backdoors are mandated for technology companies, the potential for unauthorized monitoring of incoming and outgoing data is a constant threat for Internet users.

Factors Affecting the Debate

There are many private and public sector factors that impact the debate for government mandated backdoors against encrypted data. One common argument is that while terrorists are known to use encryption for unlawful purposes, many civilians use VPNs to protect themselves against hackers when conducting personal or financial transactions.

The question is also raised as to who really owns the data that's subject to search by public safety officials. When data is created and sent through a telecommunication company's system, questions could arise as to whether the customer or the telecommunication company can disclose the data.

The fight to insert encryption backdoors has met resistance on many fronts, including consumers, the technology sector, organizations with limited resources, and foreign developers who want to create their own encryption standards. Technology companies have already asserted that they value their customers' privacy. Many customers are concerned with how companies hold and share their data, including how the company responds to data requests from the government. While there are reports the National Security Agency has the capability to break some encryption algorithms, the budget for these activities is limited. Also, foreign developers of encryption programs might be hesitant to disclose source code or add a backdoor.

The pushback from the private sector, along with the government's limited capability, is expected to keep the encryption debate alive and well for the foreseeable future.

Congress at Work: Spending, Testing, Vetoing and Cleaning Up Global Waters

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.

Consolidated Appropriations Act, 2016 (H.R. 2029) - This is the omnibus spending bill that will fund the federal government for the remainder of the fiscal year through Sept. 30, 2016. It includes the Military Construction and Veterans Affairs and Related Agencies Appropriations Act, which provides FY2016 appropriations to the Department of Defense for military construction, military family housing, the U.S. share of the North Atlantic Treaty Organization Security Investment Program, and base closures and realignments. The bill includes a provision prohibiting the VA from interfering with or denying services to veterans participating in state-approved medicinal marijuana programs. It was signed into law by President Obama on Dec. 18.

Every Student Succeeds Act of 2015 (S. 1177) - The chairman of the Senate committee on Health, Education, Labor and Pensions (HELP), Sen. Lamar Alexander (R-TN), sponsored this bill, which was passed by both houses and signed into law on Dec. 10. It is a bipartisan educational policy reform bill that expands state responsibility over schools and provides grants to charter schools. In addition, it reduces the federal test-based accountability system of No Child Left Behind. While the bill will continue NCLB's federal assessments of student learning, it gives states the authority to act based on those results. The preserved NCLB conditions include holding all students to high academic standards, preparing all students for success in college and career, providing access to quality preschools for more children, reducing the burdens of testing while still providing quality data, and promoting local innovation and investment in what works.

Improving Access to Emergency Psychiatric Care Act (S. 599) - Sponsored by Sen. Benjamin Cardin (D-MD), this bill was passed by Congress and signed into law by the president on Dec. 11. It extends and expands through Dec. 31, 2019, the Medicaid emergency psychiatric demonstration project, which was first introduced as a pilot program in the Patient Protection and Affordable Care Act of 2010. The program provides states with federal Medicaid matching funds to reimburse private psychiatric hospitals for emergency inpatient psychiatric care provided to Medicaid recipients aged 21 to 64 who are experiencing a psychiatric emergency. The funding is designed to test whether partially eliminating the prohibition against payments to institutions for mental diseases for Medicaid recipients improves psychiatric care and lowers state Medicaid program costs.

National Defense Authorization Act for Fiscal Year 2016 (H.R. 1735) - Sponsored by Rep. Mac Thornberry (R-TX), the near 1,000-page bill was intended to direct funding for procurement, research and operation of defense technology; establish military policy; and address other matters pertaining to national defense, including $371 million for the research and development of 81 Stryker vehicles with an upgraded weapon system. As proposed amendments to the bill, Sen. John McCain (R-AZ) included a provision to prohibit the Department of Defense from spending taxpayer dollars to honor American soldiers at sporting events, and Sen. Jeanne Shaheen (D-NH) proposed to extend veterans' benefits to same-sex married couples. The bill was vetoed by the president on Oct. 22, one of the seven vetoes this administration has invoked since taking office in 2008.

Microbead-Free Waters Act of 2015 (H.R. 1321) - Sponsored by Rep. Frank Pallone (D-NJ), this bill will amend the Federal Food, Drug and Cosmetic Act to ban cosmetics that contain synthetic plastic microbeads starting on Jan. 1, 2018. Microbeads are tiny particles of plastic have been added to many personal care products sold around the world. Barely visible to the naked eye, they flow straight from the bathroom drain to the sewer system, which is not designed to filter out microbeads, and ultimately end up in the world's oceans. There they are eaten by sea creatures and possibly re-consumed by humans. Microbeads are not biodegradable and impossible to remove once they enter the marine environment. Cosmetic brands that have pledged to or already stopped using solid microplastic ingredients include Avon, L'Oréal and The Body Shop. This bill was passed by Congress on Dec. 18 and is currently awaiting signature by the president.

Stay Tuned for Our 2016 Seminar Series!

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