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NEWSLETTER

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Would your estate benefit from a gifting strategy?

The concept of gifting is an excellent tax-planning strategy for generous, wealthy people.

A donor's gifts made during the calendar year to any individual are excluded from the gift tax up to $14,000 for gifts made in 2014 – called the annual exclusion amount – and are not taxable to the recipient of the gift.

Gifts to a noncitizen spouse have a higher exclusion amount – $145,000 for 2014. The gift must be a present interest because gifts of future interests do not qualify for the exclusion. A gift in trust qualifies for the exclusion only if the beneficiary has a present income or principal interest in the gift.

The amount of gifts made by a donor to each donee, up to the inflation-adjusted annual exclusion amount, is excluded from the total gifts made by the donor during the calendar year.

The annual exclusion is available to all donors, including nonresident citizens.

The current year gift tax exclusion is lost if it is not used by the end of the year. Accordingly, a taxpayer who is projected to have an estate subject to federal estate tax and has the means to make gifts to family members or other heirs should consider gifting before the end of each calendar year to use the annual exclusion.

Example: On June 1, 2014, Mr. Smith gave cash gifts of $15,000 to each of his three sons and $5,000 to each of his daughters-in-law.

The first $14,000 of gifts to each son is exempted from gift tax by the annual gift tax exclusion. The additional gift of $1,000 to each son is added to Mr. Smith's taxable gifts. This reduces Mr. Smith's lifetime gift exclusion and will require him to file a gift tax return. However, no gift tax will be due unless Mr. Smith has already used his entire lifetime exclusion, which is $5.34 million in 2014.

The entire $5,000 gift to each daughter-in-law is exempted from gift tax because it is less than the available annual exclusion. Mr. Smith could give an additional $9,000 gift to each daughter-in-law, which would allow him to maximize his annual gift exclusion of $14,000 to each of them.

Applicable state law provisions for delivery of a gift must be met before the end of the year for the gift to qualify for the exclusion for that year.

If spouses consent to split all gifts made by either of them during any calendar year and each spouse is a citizen or resident of the United States, the gifts can be considered as made one half by each spouse. A gift tax return must be filed to split gifts with a spouse.

By using this strategy, spouses may transfer twice the annual per donee exclusion amount each year free of gift tax.

Example: In 2014, Mrs. Jones gives $28,000 to each of her three sons, and her husband Mr. Jones gives $28,000 to each of his three sisters.

The Joneses consent to split gifts for 2014. Therefore, Mrs. Jones is treated as having given $14,000 to each son and to each of Mr. Jones' sisters, and Mr. Jones is treated as having given $14,000 to each of his sons and $14,000 to each of his sisters. Employing this strategy allows all six gifts to be made tax free.

Present-interest gifts to each donee are also exempt from the generation-skipping transfer (GST) tax to the extent of the amount of the applicable annual gift tax exclusion. This can be an important estate

See **Gifting** *inside*

Are you capturing the knowledge of retiring workers?

Knowledge transfer has long been a challenge for businesses. With the large number of Baby Boomers eligible to retire in the next few years, that challenge has been magnified.

The key to addressing this concern is to start early. For some companies, that ship has sailed, making it necessary to play catch up.

Here are areas to consider to be sure your company doesn't suffer as longtime employees retire.

Systems and procedures

Does your company have documented systems and processes that govern most functions?

If not, you're likely relying on tribal knowledge to accomplish tasks and address issues. This is a basic step in knowledge transfer.

Look at each department in your company – accounting, sales, customer service, etc. Pretend that the person who usually does the job is removed from the scene and unavailable for questions. Would someone new be able to handle the job, at least on a basic level?

If your departments don't have written guidelines and procedures to describe what happens in each position, now is the time to establish them.

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If there are written procedures, are they up to date? If not, be sure updating takes place at regular intervals.

While it is difficult, and perhaps unnecessary, to capture every nuance, documenting the basic processes is critical.

There are software programs and consultants to help you with the process, but it can also be done by creating a Word document or spreadsheet with detailed steps.

Have each department break up its function into pieces. For example, accounting might look at accounts payable, payroll, accounts receivable, cash management, fixed asset accounting, and so on.

Then take each piece and have the person who knows the function document the steps in handling the most common tasks. Once documented, have someone who does NOT know the job try to accomplish the task by following the documented process.

Tweak the documentation until successful. Then be sure to update it as processes change.

If you set up your documentation to allow for key word searches, it will be easier for a newcomer to find the instructions he or she needs for each situation.

Effective cross-training

Cross-training is good business, and it is a critical component for knowledge transfer.

One of the keys to effective cross-training is to resist the urge to do the task, opting rather to share information that will help someone else do the task or handle the issue.

This can be difficult for many people. It often feels inefficient, which it is in the short-term, and time pressures can cause us to fall back into doing, just to move the process along more quickly.

Cross-training is planning for the longer-term. If your company is operating at 110 percent of capacity, it is going to be very difficult to find the time to cross train. Cross-training requires an investment of time and money.

It may be necessary to hire new team members far in advance of the actual transition so that they have time to observe, learn and take on the tasks currently held by your Baby Boomer employees. The less repetitive the job, the longer the teaching period needs to be.

As you change the role of the Baby Boomer from doer to teacher, you will also need to adjust how that person is evaluated.

The senior employee should be measured on how well the understudy is coming along, not on how well the veteran does the actual job. If you continue to evaluate the teacher on job performance, it will be difficult to focus the effort on teaching.

Your veterans may need help learning to teach. They may not see the job in its component parts because they have done it for so long.

You may need to have them make an outline of the job and develop a logical path for training. You can't expect someone new to grasp everything at once, so developing some structure around how you will train the new person will be helpful.

Capturing the knowledge of your Baby Boomers will take time and money. But not capturing it will cost you time and money in the longer term.

It isn't a matter of "if" – it's a matter of "when" – you'll make the investment. While the transfer process may be stressful when done ahead of time, it can be a business killer if you wait too long. – *Denise Altman, CPA, M.B.A.* ■

Whistleblowers: IRS clarifies informant rewards

During the past three years, the IRS has collected more than $1 billion as a result of whistleblower tips.

And the informants who blew the whistle earned more than $186 million in rewards. Informants often are former spouses or fired employees.

Informants have been turning in tax cheats since the 1800s. But the program became formalized in 2006 when the IRS Whistleblower Office was created and awards became less discretionary. In August, more guidance was released by the Treasury Department on who is eligible for rewards, the amount of the awards, how to file claims and other procedures regulating the scope of the program.

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For informants who give the IRS solid, credible information – not "educated guesses" – that results in collection, two types of rewards are available:

▲ If taxes, penalties and interest exceed $2 million, the whistleblower receives 15 percent to 30 percent of the amount collected. If the case deals with an individual, the individual's annual gross income must surpass $200,000 each year.

▲ If taxes, penalties and interest are less than $2 million, or the case involves an individual whose annual gross income is less than $200,000, the maximum award is 15 percent up to $10 million.

The threshold requirement for any award is that the information must lead to judicial or administrative action – an audit or investigation resulting in the collection of proceeds.

The amount of the award in the large first category may be disputed in Tax Court. However, the amount of award in the second case of lesser collections is discretionary and cannot be disputed in Tax Court.

"Average taxpayers who play by the rules must be confident that corporations and wealthy individuals cannot avoid paying their fair share of tax through the creation and use of complicated financial structures that exploit the tax law," says IRS Commissioner John Koskinen.

"Looking to the future, the IRS must do everything possible to strengthen the Whistleblower Program and build on the progress already made in implementing the law, while remaining mindful of the need to protect taxpayer rights."

Not eligible for whistleblower rewards are employees of the Treasury Department and any federal, state or local government agency acting within the scope of their employment, or individuals who obtain the information while acting in an official capacity.

To file a whistleblower claim, mail Form 211 to:

Internal Revenue Service
Whistleblower Office – ICE
1973 N. Rulon White Blvd.
M/S 4110
Ogden, UT 84404

All whistleblower claims are submitted under penalty of perjury. After a whistleblower claim is submitted, the Whistleblower Office considers the information, and the IRS decides whether the case is worth pursuing.

To see all of the requirements and new rules concerning whistleblower regulations, see IRC Section 7623. ■

Gifting *continued from front*

planning strategy that allows donors to benefit multiple generations.

However, it is important to note that the exclusion does not apply to any transfer to a trust for the benefit of a donee unless:

1. During the life of the donee, no portion of the corpus or income of the trust may be distributed to, or for the benefit of, any person other than the donee, and

2. If the trust does not terminate before the donee dies, the assets of the trust will be included in the donee's taxable estate.

Gifting to a trust can be a complex transaction, and it is important to consult with a tax attorney to be sure you comply with these rules.

A donor's gifts to his or her spouse are generally fully deductible from the donor's taxable gifts and, thus, exempt from gift tax. This deduction, however, does not apply to gifts to a spouse who is not a citizen of the United States.

Instead, gifts to a noncitizen spouse that would otherwise qualify for the marital deduction are excluded from the donor's taxable gifts, up to the exclusion amount.

A comprehensive gifting plan can greatly reduce the size of the donor's estate and minimize future estate tax liability. Gifting also allows the donor to make gifts to heirs and see how those gifts are used and enjoyed. This can be a very fulfilling experience for many donors.

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Consult with you tax and legal advisors to craft a gifting plan that will benefit you and your family. – *Tracy A. Heider Winrow, Attorney/CPA* ■

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Retirement savings limits raised for 2015 by IRS

The amount of money employees saving for retirement can contribute to their 401(k) plans has been raised again by the IRS.

For 2015, cost-of-living adjustments allow employees to contribute $18,000 each year to their 401(k), an increase from $17,500 in 2014.

The increase also includes 403(b) plans, most 457 plans and the federal government's Thrift Savings Plan.

For those over age 50 who are trying to save more rapidly, the catch-up contribution limit has been raised from $5,500 to $6,000.

For IRAs, however, the annual contribution limits do not change. They remain at $5,500, and the catch-up limit stays at $1,000.

The tax deduction is phased out for contributors to a traditional IRA who are single or heads of households whose modified adjusted gross income is between $61,000 and $71,000, up from $60,000 and $70,000 for 2014.

In the case of married couples who file jointly – and the spouse making the IRA contribution is covered by a workplace retirement plan – the income phaseout range is $98,000 to $118,000, up from $96,000 to $116,000.

If the IRA contributor is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between $183,000 and $193,000, up from $181,000 and $191,000. The phaseout range remains $0 to $10,000 for a married individual filing a separate return who is covered by a workplace retirement plan.

For Roth IRAs in 2015, the adjusted gross income phaseout range is $183,000 to $193,000 for married couples filing jointly, an increase from the 2014 levels of $181,000 to $191,000. The phaseout range is $116,000 to $131,000 for singles and heads of households, up from $114,000 to $129,000 in 2014. For married individuals filing separate returns, there is no increase, and the phaseout remains at $0 to $10,000.

For workers with low or moderate income, the adjusted gross income limit for the retirement savings contribution credit (saver's credit) is $61,000 for married couples filing jointly in 2015, up from $60,000. For heads of households, the limit increases by $750 for 2015 to $45,750, and for singles and married individuals filing separately, the limit increases by $500 to $30,500. ■

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