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.

In This Issue:

Strothman and Company is Celebrating 33 Years!

Then Now

Our firm was founded 33 years ago on February 1, 1983 by Ray Strothman. Ray was previously with the international firm of Ernst & Young and on February 1, 1980 was a founder of Carpenter Strothman and Bolin, which is now part of the large Louisville based firm, Mountjoy Chilton Medley. Strothman and Company had humble beginnings and Ray's first office equipment included a folding table, chair and calculator. Over the years the firm developed a great client following and has been able to recruit some of the best and brightest accounting stars in the Louisville area. Strothman and Company is now the third largest Louisville based CPA firm and serves thousands of clients in multiple industries and has over 70 employees.

Ray is still going strong working with many entrepreneurial business owners and serves as President and Chairman of our firm. The firm has exceptional leadership and effective January 1 2015 Bill Meyer was selected as the firm's Managing Partner. Another milestone was January 1 of this year when six of our exceptional senior managers were promoted to partner. The firm is positioned for significant future growth and looks forward to serving our exceptional client base and providing great opportunities for our employees.

Congratulations to Bill Meyer on being elected to the North American Board of Directors of CPA Associates International

Louisville, Ky -
William G. Meyer III, CPA, managing partner of Strothman and Company, was elected to the North American Board of Directors of CPA Associates International, a leading international association of accounting firms.

"I am delighted to offer my services to CPA Associates International, of which our firm has been a member for many years," Meyer said. "I look forward to helping guide the mission of this prestigious association, which has played an integral role in our firm's growth."

Meyer has been with Strothman and Company for over 20 years. He joined the firm after 13 years at PricewaterhouseCooper, and is a graduate of the University of Louisville.

CPA Associates International is an association of CPA firms comprising 142 member firms in nearly 300 offices worldwide. It has over 40 members in North America and over 100 members in 57 other countries.

Stock Market: Optimism Despite a Bumpy Start

"The only thing we have to fear is fear itself." These are words that might reflect many investors' opinions at the beginning of the year, when we saw a stock market sell-off that sent the Dow plummeting and oil prices hit below $27 per barrel for the first time since 2003. The roller-coaster ride on Wall Street mirrored stock market performances worldwide as European exchanges tanked, Japanese stocks declined, and China's slowdown cast shadows worldwide. By the end of the month, despite continuing dips and dives on the exchanges, investment experts were pointing to positive indicators and urging investors to avoid knee-jerk reactions. Here's an overview of key talking points and current opinions.

- **No return to recession.** The U.S. economy does not operate in isolation from the rest of the world. However, that doesn't mean China's misfortunes will drag the United States back into a recession. China's major market dive occurred last summer and the majority of the impact of that development already has been absorbed into U.S. stock prices. Many investment experts urge investors to recognize the positive economic drivers that are currently at play in the United States - including cheaper oil and low interest rates. Federal Reserve Chairwoman Janet Yellen has noted that the Fed doesn't believe another recession is on the horizon, citing strong job growth and healthy economic expansion as significant factors. Surveys indicate that companies are planning to raise workers' wages this year, providing consumers with further encouragement to keep spending. Bottom line: the stock market rarely leads the economy into a recession - tanking economic factors usually are the catalyst.

- **Will the positive outlook for consumer spending and wage hikes keep the economy growing?** Some experts have been quick to tie the U.S. markets' decline to the dip in oil prices, which have fallen significantly (almost one-fourth of what they were only six months ago). While it is true that energy company stocks are down and oil industry workers have been let go, cheaper energy and heating costs means consumers have more to spend. Lower gasoline and heating oil costs also mean that companies are seeing lower operating costs, which translate into more hiring and/or higher wages. Optimists believe these changes outweigh the downward spiral in the oil sector. Yet conflicting views abound. Some analysts believe that because the United States has shifted from a net consuming nation to a major producer of oil, that lower prices will have a greater impact on the markets than they have had historically.

- **Is a Bear Market on the horizon?** Any time there is growing volatility in the stock market, pessimists start to predict the current bull market's demise. The reality is that by May 2016, this bull market will be the second-longest in history. While that doesn't automatically mean we are overdue for a bear market, it should prepare investors to expect some volatility ahead. In such a climate, investment advisors often counsel risk-adverse clients to stick with the tried and true - companies that offer a solid long-term track record and reward patient investors.

The above is general commentary only and is not intended to replace the professional advice of tax and investment advisors.

Tip: Finding Small Business Loans in 2016

Following the Federal Reserve's decision to approve a modest interest rate increase, banking insiders anticipate that larger banks will increase their lending to small businesses in 2016. Even before the Fed made its long-anticipated move, the percentage of loan applications approved by big banks already had increased to the highest level since the subprime mortgage debacle of 2008. Unfortunately, this post-recession high is only about 23 percent, which means that many small business owners continue to have trouble getting credit from brick-and-mortar banks.

For some small business owners, traditional banks remain the best option for borrowing at the lowest interest rates. However, securing credit can be time-consuming - and negotiating your way through banks' approval procedures can be very challenging. You might be required to put as much as 30 percent down, and you should be prepared for a lot of paperwork and possibly a lengthy wait while your application is reviewed and checked. Not everyone can meet the loan criteria required by traditional banks.

Many business owners, for whom traditional banks are not a good fit, have used online funding sources successfully. These sources may be peer-to-peer lenders, who fund loans through individual investors. The Lending Club is the largest of this type in the United States. Other direct lenders provide funding with their own capital just like banks do. Interest rates from online and peer-to-peer lenders tend to be significantly higher than that of traditional banks (double digits rather than single digit rates from brick-and-mortar institutions). However, borrowers will find their review and approval processes less stringent, and will receive their loans faster than they would from traditional banking institutions.

Moreover, don't overlook credit unions. They offer competitive interest rates (they are nonprofit organizations) and many business owners find them easier to work with than banks. To qualify, you will need to be a credit union member, but many have fairly simple membership requirements.

In determining which type of loan would suit you best, consider the following.

- Online banks have been increasing in numbers. If you can't meet the eligibility requirements of traditional banks, online lenders might be able to supply the credit you need. Make sure you are contacting the appropriate type of loan source. Peer-to-peer lenders and credit unions typically lend to established small businesses with at least a one- or two-year track record.
- Online lenders offer a variety of different loan packages. Some companies require a specific dollar volume of business and/or that you have a certain number of full-time employees. As a rule of thumb, the newer your venture is, the fewer requirements, and/or the greater the risk, the higher the interest rate charged. Online lenders can make the loan process less exacting, much easier, and give you your money faster - but in turn, you will pay higher interest rates.
- Check the reputation of online lenders. Because this is a relatively new business arena, check the various companies' BBB accreditations and customer reviews. Try to find a lender that has been in business for a few years.
- Look carefully at the information each lender has published. Look at interest rates, terms and the eligibility requirements of various potential sources. Also pay attention to the quality of communication the lender uses to present its business and loan procedures. You'll want to find one with a good website that is both easy to use and informative. Reputable lenders usually provide extensive FAQs, and make it relatively easy for you to calculate the total cost of a loan - including interest rates, fees and any financial penalties.
- Get organized. Have a written business plan, a strong business pitch and copies of relevant financial information (bank statements, tax returns, Profit/Loss (P&L) statements, etc.).

Securing a loan is easier than it has been for several years, but there are no shortcuts. Do your homework to identify the options that best fit your situation.

Tax Basics - What All 20 and 30 Somethings Need to Know

Whether you prepare your tax return yourself or hire a professional, there are certain things you should know. Often it is not until a person reaches their mid- to late twenties that tax returns become more complex and they need to be more informed. Below are seven fundamental tax concepts that usually are not taught - but everyone should know

1) You might not even need to file
Just because you have income does not mean you need to file a federal income tax return. There are many factors affecting your need to file - from how much you earned to the source of your income, filing status, age, etc. You can try to figure this out yourself, but it is best to check with a tax pro to confirm, especially given the next item discussed below.

2) You might not need to file - but you probably will want to
While you may not need to file a federal income tax return, you might still want to in order to get the

benefit of certain tax breaks and credits.

One example is the American Opportunity Credit related to qualified educational expenses, which can yield a refundable credit even if you don't owe any tax.

3) Not all deductions require you to itemize

Most taxpayers do not itemize their deductions. This is because itemized deductions only benefit you to the extent that they exceed your standard deduction. Often, people do not have enough deductions to exceed this. But just because you do not itemize deductions doesn't mean you should ignore deductions altogether. Certain deductions are allowed without itemizing on page one of Form 1040. Examples include student loan interest, IRA contributions and qualified moving expenses, among others.

4) Can't pay? File anyway

Different penalties apply for failure to file a return and failure to pay your tax. This means that even if you cannot pay some or all of your tax bill, make sure you still file your return. It also means that you need to make sure you file even if you are getting a refund or breaking even.

5) Extensions to file are not the same as extensions to pay

If you cannot file in time, you may request an automatic extension for more time to file. To do so, complete and submit Form 4868 Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. As noted above, remember that an extension to file does not mean an extension of time to pay.

6) Don't mess with the IRS

If there is one organization you don't want to mess around with, it is the IRS. This is not meant to scare you, but the IRS has extensive powers to go after taxpayers who fail to file, pay or both. For example, if you owe back taxes, the IRS can take it out of future refunds, garnish your wages or even revoke your passport. However, the agency also understands that sometimes things happen and people have trouble paying. There are various arrangements you can make with the IRS, such as payment plans, etc. The most important thing is to not bury your head and ignore the situation.

7) There is no substitute for a good tax preparer

It might seem like a good idea to prepare your own taxes in order to save money or because you happen to be the rare breed that enjoys it, but it's not always the best idea. Using a Certified Public Accountant (CPA) can help ensure that you save time, aggravation and best of all, money. Oftentimes the cost of hiring a professional preparer who stays current with the most recent tax law changes and has the experience of seeing many different situations can save you far more than it ends up costing.

Technology: Leveraging the 'Gig' Economy

The so-called "gig" economy allows individual workers to freelance their skills to meet the on-demand needs of clients by using mobile technology. In 2015, the gig economy gained a significant foothold as businesses and consumers alike began to look beyond the transportation and hospitality sectors (think Uber and AirBnB) to take advantage of other apps and platforms that hook them up with on-demand services.

Here's how the gig economy might affect your business.

- The driving force behind this new on-demand economy is the proliferation of smartphones and other hand-held technology devices that offer computing power comparable to that of desktop computers in the '90s. By connecting with each other and to cloud computing, mobile devices give people the freedom to find effective and efficient answers to business problems that previously would have been resolved within the structure of a traditional business firm or company. Workers are able to enjoy flexible hours, a greater choice of income-generating options, and the opportunity to gain work experience and boost their incomes.

- The gig economy is no longer primarily comprised of younger people looking for supplemental income. Specialized platforms are competing with traditional providers of professional services, such as tutoring, legal services, business consulting and computer programming. Whether employers need specific professional talents for temporary situations or a few people to take on a short turn-key project, almost certainly there is an app that can identify suitable workers at competitive prices.

- There are many on-demand apps. Some, like Handy,match service jobs with independent contractors for tasks that might include house cleaning, laundry services or travel booking. Also, there are sites like Amazon's Turk, where customers can post any task requiring human intelligence, and where workers can review opportunities listed according to task and price. Highly specialized sites like Medicast allow patients to book a house call from a doctor using an app that records both the location and symptoms of the patient, while others are devoted to providing creative directors or commercial artists to businesses in the entertainment and advertising industries.

- Though this brave new world offers great options to workers and business owners, it has not come about without creating issues for the public and private sector. Business owners face the significant challenge of managing and training an on-demand workforce in which workers may be scattered across different time zones. Quality control is another key concern. In response, on-demand platforms are adopting more extensive screening and vetting processes. Doing so requires them to pass on the costs of such research, diminishing the cost advantages that made these options attractive to their customers in the first place.

- Perhaps the biggest challenge will be for governments - including the U.S. government - to re-think how workers are protected and how pensions and health care benefits are administered. Regulatory and social systems, developed when freelancers and contract workers were in the minority, will need to change to allow individual workers to take control of their health care and retirement needs in an on-demand economy.

Divorce Financial Agreement Strategies

In the United States, one out of three baby boomers is single. One in every four divorce cases filed involves a spouse over age 50. What's more, over the past 20 years the divorce rate for people older than 50 has doubled. This is particularly disconcerting when you consider that people in their 50s are really starting to take planning and saving for retirement seriously. Tossing a divorce into the equation can throw a wrench into a couple's future financial security.

That doesn't even take into the consideration all of the emotions surrounding the reason couples divorce. The road becomes even more complicated when we mix in blended families, the legalities still unclear regarding same-sex marriages, and the all-new complications associated with childbearing via artificial reproductive technology.

One of the first considerations when there are so many factors involved is for couples to seek professional advice from a variety of different sources. For example, you might be beyond fixing your marriage through couple's therapy, but it could be helpful to work with a family therapist to design a custody arrangement. Bear in mind that the majority of divorcing couples do not set out to destroy each other. Those sentiments generally erupt once debates turn ugly, especially where money and child custody are concerned. A therapist can work with you and your children to help determine what each person wants and what might be in their best interest.

Second, sometimes it's better for a couple to consult with a financial advisor for help dividing assets, rather than a divorce attorney. A financial professional might have more expertise in how to handle the buying, selling and transfer of assets (and potential tax consequences) with a more objective perspective toward securing the financial future of both parties. Separate divorce attorneys are not likely share this perspective at all.

It's a good idea to keep emotions out of the financial agreement. One divorcing couple managed to avoid this by placing all of their assets in a corporation, which they co-owned equally. Together, they negotiated a simple, one-page custody agreement and paid an attorney a small fee to file it in court. Once they settled into a routine with separate lives, they then began to discuss the division of assets. Two years later, they agreed upon and filed another one-page financial decree to finalize the divorce. Once the hurt had passed and they had moved on, they could rationally make decisions based on their current situation.

The following are a few tips to help you create a mutually beneficial plan to end your marriage:

- Be aware that Arizona, California, Idaho, Louisiana, Texas, Nevada, New Mexico and Washington are community or marital property states. This mean that when a couple divorces, assets that were acquired during the marriage are divided equally.
- Consider whether you should change the beneficiary on your life insurance policies, annuities and retirement accounts, including IRAs and 401(k) plans.
- You might need a court order called a Qualified Domestic Relations Order (QDRO) that provides specific instructions on how workplace retirement benefits or IRAs should be split.
- You also might need to change or originate a living will and/or power of attorney to make medical or financial decisions if you are incapacitated. In the case of divorce, you might want to name a parent or sibling rather than your ex.

Congress at Work: Attempting to Undermine Obamacare, Closing Bank Accounts and Protecting Children from Gummy Bear-Flavored Toxins

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.

An Act to provide for reconciliation pursuant to section 2002 of the concurrent resolution on the budget for fiscal year 2016 (H.R. 3762) - If signed into law, this bill would have restricted the federal government from operating health care exchanges, phased out funding for subsidies to help lower- and middle-income individuals afford insurance through the health care exchanges, eliminated tax penalties for individuals who do not purchase health insurance and employers with 50 or more employees who do not provide insurance plans, eliminated taxes on medical devices and the so-called "Cadillac tax" on the most expensive health care plans, phased out the expansion of Medicaid over a two-year period, and ended federal funding of Planned Parenthood for one year by prohibiting Medicaid reimbursements for those services. At the end of 2015, Republican Congress members attempted to pass this bill using the budget reconciliation process, which is the one chance each year that the majority party can bypass a Senate filibuster to get a bill onto the President's desk without needing a single vote from the minority party. Although the bill did get to the Oval Office, it was vetoed on Jan. 8.

Grants Oversight and New Efficiency Act or the GONE Act (S. 1115) - Sponsored by Sen. Deb Fisher (R-NE), this act will require agencies to close out expired, empty grant accounts. This legislation was initially introduced in 2013 in response to an article published in The Washington Post. The story reported that the government would spend $890,000 in bank account service fees for 13,712 bank accounts with a zero account balance. Congress passed the bill on Jan. 11 and it was sent to the President for signature.

Child Nicotine Poisoning Prevention Act of 2015 (S. 142) - Sponsored by Sen. Bill Nelson (D-FL), this bill requires special childproof packaging for liquid nicotine refill containers used in e-cigarettes. This effort is to help prevent children from directly ingesting the contents - which are sold in bright colors and flavors like cotton candy and gummy bear - causing serious and even deadly health consequences. This bill was passed by Congress on Jan. 11 and is currently with the President.

First Responders Passport Act of 2015 (H.R. 3750) - Sponsored by Rep. Darrell Issa (R-CA), this bill amends the Passport Act of June 4, 1920, to waive passport fees for individual who have contracted with the U.S. government (including volunteers) to aid a foreign country suffering from a qualifying natural disaster. This bill passed in the House on Dec. 16, 2015, and goes to the Senate next for consideration.

Combat Terrorist Use of Social Media Act of 2015 (H.R. 3654) - This bill, sponsored by Rep. Ted Poe (R-TX), passed in the House on Dec. 16, 2015, and presently is on the Senate docket. The Act would require the President to provide Congress with a report on U.S. strategy to combat terrorists' and terrorist organizations' use of social media. Among other provisions, the report must include an evaluation of the role social media plays in radicalization in the United States and elsewhere, an analysis of how terrorists and terrorist organizations are using social media, and provide a comprehensive strategy to counter terrorists' and terrorist organizations' use of social media.

2016 Strothman and Company Seminar Series

We are pleased to announce our 2016 Seminar Series. Strothman and Company has been providing these complementary programs for 30 years, demonstrating our commitment to education and continuous improvement. In addition to these seminars, others may be added during the year. Be sure to watch for our monthly newsletters! Please invite friends and associates to attend these FREE seminars.

Investing in a Turbulent Market *Managing Your Risks*	**May 12, 2016** 8 - 10 AM Owl Creek Country Club
Cloud Accounting *The Technology Savvy Way to Run Your Business*	**August 18, 2016** 8 - 10 AM

Owl Creek Country Club

Business Ethics *Learning from the Mistakes of Others*	**September 21, 2016** 8 - 10 AM University of Louisville - Shelby Campus
Expanding Your Business Nationally & Internationally *Tax and Business Considerations*	**October 20, 2016** 8 - 10 AM Owl Creek Country Club
Tax Update *Preparing for a Changing Environment*	**November 10, 2016** 8 - 10 AM Owl Creek Country Club
21st Annual StroCo University *Blazing Trails*	**December 1, 2016** 8 - 12 PM University of Louisville - Shelby Campus

*Strothman and Company seminars are designed to qualify for Continuing Professional Education (CPE) for CPAs.

If you have any questions, please call Stephani at 502.585.1600502.585.1600 or email showard@strothman.com

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