FINANCIAL DECISIONS
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What Should You Do If An Employee Asks For A Loan?

As the owner of a small business, what would you do if an employee asked you for a personal loan? There is no one answer that fits every case. Yours should depend on a number of factors and considerations.

You should start by asking your worker a couple of questions: Why do you need a loan? What happened to put you into this financial situation?

You may also want to ask *yourself* these questions:

- Are you prepared to make this a gift rather than a loan? The money may not come back.
- Do you have serious concerns about being repaid? If you aren't repaid, will the loss hurt you or your business?
- What happens if you need to terminate the employee before the loan is repaid?
- Will you be setting a precedent and become an easy mark for other employees seeking loans?
- Do you want to have the business lend the funds or make it a personal loan?

It's true that the owners of many small businesses, as well as their employees, consider themselves as "family." But is it a good idea to make loans to "family" members?

The answer to this question may surprise you. While some parents think it is not a good idea to make a loan to a son or a daughter, some small-business owners think differently. One, an electrical company owner in Maryland, actually thinks it's a good idea to make personal loans to employees – interest-free! This owner says the employees almost always pay him back, even if they eventually leave his employment.

If you decide to lend funds to an employee, be sure that the employee signs a promissory note to repay the loan. The note should spell out repayment terms (frequency of payments, interest rate, what happens in case of a default, etc.). While there are many templates online that you can use to create a binding promissory note, we would recommend checking with your attorney to make sure you are well protected.

Be sure to carry a loan from your business as such on your books. This ensures that loan repayments from an employee won't be reported as income.

If you want to consider making a low-interest or no-interest loan, keep the below-market loan rules in mind for tax purposes. If

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Doing Well...

Lately, we have seen a lot of interest in, and confusion over, the concept of responsible investing. Simply put, is it possible to find investments that can make a reasonable rate of return and also keep your conscience clear? Or in other words, is it possible to do well, while still doing good?

The idea of **Socially Responsible Investing** (SRI) isn't particularly new. Investors long have shunned the stock of companies that displeased them: tobacco companies, big polluters, or casinos, for example. But it was agreed universally that this tactic often excluded some of the best performing stocks. Hence, doing good usually meant you wouldn't do quite so well.

More recently, investors started using **Thematic Investing** to build stock portfolios focused on grander objectives, such as renewable energy, water resources, or ethical business practices. The more environmentally friendly themes evolved into the concepts of **Sustainable Investing** and **Green Investing**. Their close cousin, **Impact Investing**, strives for a measurable environmental or social gain from the deployment of capital.

Today, many managers are screening investments according to **Environmental, Social, and Governance** (ESG) principles. They have found that companies which take care of the environment, treat their employees and communities well, and are ethically and efficiently run, often have superior stock performance. This might end up being the long sought-after solution to doing both well and good.

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Teach Employees About Computer Scams

Computer criminals seem to be stepping up their efforts to steal your personal and financial information—and your money.

The two most common approaches are the "tech support" scam, aimed primarily at individuals, and the "ransomware" scam, commonly used against businesses.

In a typical tech support scam, unsolicited phone callers say they are calling about "Windows," the popular operating system of computer software giant Microsoft. Don't believe it.

Microsoft says it never makes unsolicited phone calls about Windows computer problems.

Do not allow such a caller to take control of your computer. Hang up the phone immediately. This scam has been around since 2009.

Ransomware schemes have been around even longer, since 1989 when a disturbed biologist sent infected floppy discs to an AIDS conference sponsored by the World Health Organization.

This scam is aimed at businesses primarily because all it takes is for one employee to click on a link that then allows a scammer to take control of a business's computer system by shutting down the system or paralyzing it with encrypted, unintelligible jargon.

The scammer then demands a ransom, usually to be paid through an untraceable virtual currency such as bitcoin, to unlock the system and return it to normal.

The Federal Bureau of Investigation estimates that since 2015, U.S. companies have paid a total of $25 million to ransomware scammers.

The ransomware scam can start with a phone call much like the ones used by tech support scammers. In such a case, an employee is urged to allow the caller to obtain access to a business's computer system. Again, don't do it! Ever!

Today's version of the increasingly complicated scam also can start with a "phishing" email that asks a business computer user to click on a link to a website, article, or photograph that appears to be legitimate.

Scammers, in fact, are adept at creating legitimate-looking company names, fake caller IDs, and bogus company logos.

Business owners may be able to avoid these pitfalls by educating their employees about ransomware scams and how they work.

First, tell your employees never to take an unsolicited phone call from a stranger, and then allow the caller access to your company's computer system.

Be sure your employees do not rely on caller ID numbers to authenticate calls.

Also tell them about phishing emails that offer information or rewards if an enclosed link is clicked on.

Tell them never to click on a link from an unknown source, even if the email contains a legitimate-looking company name and logo.

If your employees don't know the source of an email, tell them not to click on a link or attachment – ever! ●

Tax Rules For Donating Your Collection

Do you collect art, jewelry, coins, or stamps? Or maybe your passion is action figures or sports memorabilia. Whatever the focus, your collection could be valuable—and donating all or part of it to a museum or another nonprofit organization could earn you a substantial tax deduction. If you play your cards right, you may be able to write off the full value of your donation immediately.

The basic rule is that you can deduct the fair market value (FMV) of a collectible item you give to charity if selling it would have produced a long-term capital gain. So if you've owned the property for more than one year, the amount you deduct can include the item's appreciation in value since you acquired it, and you will never be taxed on that gain.

On the other hand, for a collectible you've owned for a year or less, your deduction is limited to your "basis" in the property (usually, your initial cost). These are essentially the same rules that apply to donations of securities.

Suppose you acquired a sculpture for $10,000 eleven months ago and it's now worth $15,000. If you donate it to a museum now, you can deduct $10,000 as a charitable contribution. However, if you wait just over a month longer, the full $15,000 is deductible.

Is there a catch? Yes, just one. When you donate "tangible personal property," such as collectibles, you can take a deduction based on FMV only if the property is used in a manner relating to the charity's tax-exempt function.

Let's go back to our example of the sculpture. If you give the artwork to a museum after you've owned it for more than a year and it is displayed for the public to see, you still can write off $15,000. However,

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5 Steps To Help Women Save More For Retirement

According to the latest statistics, women have made great strides in saving for retirement, but still lag far behind their male counterparts. A new report by the National Institute on Retirement finds that men received $17,856 in median retirement income from pensions in 2010, compared to $12,000 that women got—33% less than men. The gender gap also extends to retirement plans such as 401(k)s. In 2014, women had 34% less than men in these accounts, with a median of $36,875 for men and $24,446 for women.

To compound the problem, women have longer life expectancies than men; this means they need more – not less – to live on during retirement. The Social Security Administration says women reaching age 65 today can expect to live, on average, until age 86.6, as opposed to age 84.3 for men.

Taking steps now could help women overcome these hurdles. Here are five to consider:

1. Map out a plan. Married women in particular may tend to leave retirement planning to the men in their lives, especially if they relied on their husbands as the primary breadwinner during child-raising years. But it's important for women to participate in their family's financial planning, so that they can help formulate goals and what it will take to reach them. For women on their own, it can be all the more crucial to commit a plan to writing and do their best to stick to it.

For instance, project where you expect to be in 10, 15, or 20 years, and what your living situation will be then. Will you continue to live in a high-rent district in retirement? What is your health status? Do you expect to be on your own or with a spouse? The answers can shape your goals.

Finally, when you're finished, don't just stick the plan in a drawer and forget about it. Review it periodically and, when warranted, update it to reflect your changing needs.

2. Create a budget. If you haven't done so already, develop a budget for yourself as well as for your household. In particular, focus on ways you can save more and spend less. For instance, if you participate in an employer plan for flexible spending accounts, you can save on taxes while setting aside funds for health care and dependent care.

On the spending side, can you forego some luxuries? Can you reduce annual expenditures for your wardrobe and entertainment? Such cutbacks may free up more funds for retirement.

3. Don't ignore the risks. Even if you're fit as a fiddle right now, there is no guarantee you won't face serious health issues in retirement. Act now to ensure that you'll be protected from any catastrophe that could soak up your life's savings. For instance, you should be able to rely on adequate health insurance coverage through an employer or other resources. Disability insurance can also provide important protection in your working years, in case of an unexpected illness or injury. Once you reach age 65, the qualifying age for Medicare, you will probably need to buy supplemental coverage to reduce your out-of-pocket costs.

Women in particular may also want to consider buying long-term care insurance to help cover the costs of nursing home care they may need one day. According to American Seniors Communities, there are seven times as many women as men in assisted care facilities.

4. Salt away more in tax-favored accounts. Don't pass up the opportunity to participate in a 401(k) or another kind of retirement plan at work. The tax law permits you to defer salary within generous limits, plus "catch-up contributions" are allowed when you're age 50 or older. At a minimum, be sure to contribute enough to qualify for the maximum matching contributions from your company.

Money you put in traditional or Roth IRAs can complement employer-based retirement plans. A Roth IRA, which doesn't let you deduct contributions but does offer tax-free distributions during retirement, could be particularly helpful, especially if you expect to pay a higher tax rate in retirement than you did while working. "Spousal" IRAs can benefit nonworking wives.

5. Rely on a financial advisor. Having a retirement expert help guide your decisions can be just as helpful for women as it is for men. From working with you to develop an investment plan to helping you decide when to begin receiving Social Security benefits and how to manage required distributions from your retirement accounts, an advisor can be an essential partner in planning the kind of financial future you want. ●

if the nonprofit is your alma mater and school officials sell the sculpture, you can deduct only your basis, or $10,000.

In some cases, the higher deduction can easily be salvaged. For instance, if you give it to your college but insist the sculpture be displayed in a building where art majors can study it, you should qualify for the full deduction.

The other thing that's important is to have your item or collection appraised by an independent expert in the field to establish its value. This is an IRS requirement and will come in handy if the agency ever challenges the deduction amount. But here's a bonus—you may be able to deduct the cost of the appraisal as a miscellaneous expense, subject to the usual threshold for such write-offs.

Other tax rules, including limitations on itemized deductions, may come into play. But this is the way to get the most bang for your buck under current law. ●

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When To Disclaim An Inherited IRA

Should you ever pass up a chance to get more money? It depends. Suppose you're in line to inherit IRA assets. When it makes sense, you might use a "qualified disclaimer" so that the assets bypass you on the way to someone else.

A disclaimer is a legal document that lets you waive your right to receive money or property from an estate. If you execute a disclaimer, it's as if you never inherited the assets. Instead, they go directly to the next person in line to receive them. In the case of an IRA, the assets typically wind up with the account's contingent beneficiaries.

Why would you do this? There are two main reasons:

1. Assuming you don't need the money, you might prefer that the assets go directly to the younger generation, usually your own kids or grandkids. You were going to give the assets to them eventually anyway, right? A disclaimer shortens the process while lengthening the time over which the beneficiaries must take required minimum distributions (RMDs) from the account. RMDs are based on the life expectancies of the beneficiaries, so the younger they are, the longer the wealth can be preserved.

2. A disclaimer may reduce a family's overall tax liability. The RMDs from IRAs generally are taxed at ordinary income rates, which go as high as 39.6%. Younger children and grandchildren are likely to pay tax at a much lower rate.

For a disclaimer to work, it has to be an irrevocable, unqualified refusal to accept property, and it must meet the following requirements:

- It must be in writing with a declaration and signature of the person who is making the disclaimer.
- It must identify the property (or the partial interest in the property) that is being disclaimed.
- It must be delivered to the party or entity responsible for transferring the assets (for example, an IRA custodian or trustee).
- The disclaimer has to be executed fewer than nine months after the property was transferred (or within nine months of when the disclaiming person reaches age 21, if that's sooner).
- As a result of the disclaimer, the assets must pass to the new recipients without any direction from the person making the disclaimer. You can't decide to give the money to someone other than the legal beneficiaries next in line.

This process can be technically complicated, so you'll need to work with an attorney to provide the proper language for a disclaimer, which must take into account whatever is required under state law. Also, take great care in completing any beneficiary designation forms furnished by an institution. ●

Employee Needs A Loan?

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your business lends money to an employee and fails to charge interest at the applicable federal rate, or AFR (an interest rate set monthly by the IRS and which varies according to the length of the repayment period), you are treated as having received phantom income (the uncharged interest, which is the difference between the AFR and interest, if any, that has been charged). This must be reported as income for your business. However, there is an exception: There's no imputed interest if the loan is below $10,000 and if avoiding taxes is not the main purpose of the loan arrangement. And, if you personally lend the money, different rules apply to so-called gift-loans. Currently, AFRs are low due to the low-interest environment, but if the Federal Reserve acts to raise interest rates in the future, expect to see AFRs also rise.

Getting back to the question of whether you should make loans to your adult children, simply caving in and giving them whatever they want will not teach them survival skills that they may need later in life. You probably would be wise to treat them the same as you would an employee asking for financial help:

1. Make sure any request for money is backed by a reasonable business plan and the skills needed to make it succeed.

2. If you agree to their request, fully discuss the terms. Emphasize that this is a loan–not a gift–and agree on terms for repayment.

3. Put it in writing. Having a contract can help avoid family tension and a potential estate planning debacle. ●

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