



# Client News

FALL | 2017

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- 10 Traits of Successful Business Owners
- Research & Development Tax Credit
- Reduce Social Security & Medicare Taxes
- Passwords to Avoid
- Year-end Tax Planning Strategies

## CLIENT PROFILE:



## High End Home Remodeling Company...

*Transforming Environments & Fulfilling Dreams*

"Change Is Good" is the motto of Change Design Group, based in Wilmette and cofounded by Mike O'Brien and Jeff Burch. Driven by their passion and unmatched attention to detail, the company provides design and space planning, custom cabinetry, millwork and installation for residential kitchens, libraries, offices, mudrooms and theaters. From concept to reality, Change Design transforms their clients' homes into beautiful, functional spaces where family memories will be made for years to come.

### Lifestyle Driven Solutions.

At Change Design the transformation process begins with extensive client conversations and space evaluation – What is driving you to undertake the project? How is the space currently being used? How can it be better suited for your family's lifestyle?

*"Our role is to, first, listen to and get to know the client and their family. Throughout this interaction we are able to learn how they live in the space on a daily basis. We can then begin to create solutions that improve functionality,"* noted Burch. *"Of course beauty and style are essential for the finished product as well."*

With over twenty years of experience, beginning when they worked together at a long established custom kitchen planner, Mike and Jeff are seasoned professionals. They know how to create and install personal and transformative spaces. They've even mastered the art of navigating the potential pitfalls that sometimes accompany an emotional undertaking like a kitchen and home remodel.

They become de facto counselors to the decision weary client. According to Jeff,

*"When an anxious client sees that you have an in-depth knowledge of how houses, and kitchens in particular should flow, and that you really care about how they will live in the space, you can really help people overcome their worries. I think people want to really feel like you're with them and in their corner."*

This nurturing and professional approach is also a contributing factor to Change Design's continued growth. A robust professional network, consisting of clients, architects, interior designers and contractors help keep the pipeline full. Currently, Change Design is working on 25 + projects and the outlook for 2018 looks just as bright.

*"We work with so many wonderful people – it's really a privilege to help them create a beautiful living environment in their home. Maintaining these professional and personal relationships is fundamental to our success,"* commented Burch.

### Valued Partners Designing Success.

Change Design takes great strides to fully understand and consistently deliver on their clients needs. As a valued business partner with similar ideals, KRD is proud to help Mike and Jeff manage their financial and accounting needs.



*Change Design Group earned a Best of Houzz 2017 - Client Satisfaction award for the highest level for client satisfaction by the Houzz community. January 13, 2017. Congratulations Mike and Jeff!*

*"Steve Gillette has been instrumental in advising us on how the company should be structured, tax implications of various decisions, and what pitfalls to be aware of. He is patient, reachable, understands our business, and always has our best interests in mind,"* notes Burch. *"And Kathy Grande's accounting and organizational skills allow us to focus on what we do best, without having to add a full time employee to take care of those things. It is comforting to know that KRD has our back."*



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## SUCCESSFUL BUSINESS OWNERS

What differentiates businesses that fail from those that become raging successes? Certain traits and habits help business owners beat the odds and build highly successful companies.

### 1 They Dream Big

Successful business owners are dreamers. They wholeheartedly believe they can turn those dreams into reality. They see their business in their mind's eye and have complete faith and belief in this vision.

### 2 They Spot Their Opportunities

Successful entrepreneurs are willing and able to think outside the box and see potential in ideas where other people don't.

### 3 They Know how to Execute

Lots of people have ideas. Taking an idea and figuring out how to bring it to market – and then getting people to actually buy it – is a completely different thing. It is this ability to execute that separates successful entrepreneurs from mere dreamers.

### 4 They Take Small Steps

Even if their ideas are big, business owners know they aren't able to achieve everything at once because there is never enough money, never enough people, and never enough time in the day. They know how to prioritize and achieve things by taking small steps forward. They engage in incremental progress.

### 5 They Ask for Help

Smart people need a sounding board. They look for people who have experience in their industry and find business partners that complement – not duplicate – their own skills.

### 6 They're Nimble

Like everyone, successful business owners make lots of mistakes. The difference, however, is that they are willing to learn from and accept those mistakes and change course – sometimes quickly.

### 7 They're Confident

They don't let self-doubt or naysayers get in their way. Their persistence pushes them forward and keeps them focused, even when things don't always work out.

### 8 They're Not Afraid to Fail

Fear of failure prevents many people from starting businesses or trying new things. Successful entrepreneurs understand the risks and try to mitigate them.

### 9 They Build Strong Teams

As companies start to grow and hire more people, owners know they need to build strong teams. Their employees and managers are the backbone of the business. The ability to hire well – as well as fire – is crucial.

### 10 They Delegate

It's often hard for business owners to let go. After they hire the right people, they let them do their jobs so they can focus on what they do best.

– The Hartford Small Biz Ahead



## QUALIFYING FOR THE RESEARCH & DEVELOPMENT TAX CREDIT

*By Robert S. Jacobsen*

Research and Development (R&D) is often associated with sophisticated laboratory experimentation where cutting-edge technological product is created. However, the Internal Revenue Code offers a more flexible definition of research and development.

In general, R&D involves a process of experimentation to develop new or improved products or processes that are technological in nature and where an uncertainty in the outcome exists. Substantially all of the research expenses eligible for the R&D credit must contain elements of a process of experimentation relating to a new or improved function, performance, reliability, or quality of product. Many expensed activities considered routine by many companies may qualify for the credit.

The R&D process should rely on the hard sciences (physics, chemistry, biology, engineering, computer science, etc.). Activities that do not qualify for the credit include those conducted after commercial production of a product, those related to the adaptation of an existing product to satisfy a particular customer's need, and reverse engineering.

Specific costs eligible for the R&D credit include wages paid to employees who engage in qualified research, supplies consumed during research and 65% of amounts paid to outside contractors involving R&D. The R&D credit can range from 6% to 20% of research expenses depending on the methodology used to calculate it.

Recent changes to the R&D tax credit have been beneficial for small businesses. Small companies with less than \$50 million in gross receipts can use the tax credit against their Alternative Minimum Tax (AMT). Start-up businesses with gross receipts of less than \$5 million now have the option to offset their payroll taxes with the credit.



# 2017

## Social Security & Medicare Tax Reduction Ideas

Social Security tax and Medicare tax – the two components of FICA – can take a big chunk out of your paychecks. You can't avoid FICA tax on your wages; however, you might be able to lessen the tax impact.

For 2017, the 6.2% Social Security tax applies to a wage ceiling of \$127,200 (up by \$8,700 from 2016). Furthermore, the 1.45% Medicare tax applies to all wages. So you must pay FICA tax of 7.65% on the first \$127,200 of wages and 1.45% after that. At higher wage levels, you may also owe the additional 0.9% Medicare tax.

### Two Possible Strategies:

1. *Once you hit the wage ceiling, use the extra cash to increase your retirement contributions to your 401(k) plan & reduce your AGI – assuming you are under the contribution limit.*
2. *Have your child work at your family-run business – their wages are exempt from Social Security & Medicare if under age 18. Restrictions apply to the type of business.*



## KRD Volunteers at the Northern Illinois Food Bank for CPA Day of Service.

KRD is a strong believer in community service and for the second year in a row, thirty team members volunteered to help feed families in our local communities.

As a result of our volunteer services, in just one morning, we were able to help provide 12,800 meals for hungry neighbors in Northern Illinois – and we had fun doing it!

## Don't Use These Passwords

### ❌ Password

Number-one and most common bad choice. Also prevalent are variations such as P@ssword and P@55w0rd!. These might be easy to remember, but they're also among the first options hackers will try.

### ❌ QWERTY

Letters at the top left of the typical computer keyboard.

### ❌ 12345

Or, 98765. Or, 4567. No consecutive numbers and no sequential letter combinations.

### ❌ BusinessName1

If your shop is called Sandy's Cakes, don't set your password as SandysCakes1.

### ❌ BusinessAddress

Skip it entirely and avoid mashing together similar details, such as your street name and street number – Main215.

### ❌ Date of Birth

Thanks to the Internet, it doesn't take much effort to find a person's DOB. Birthdays, birthdates, years of birth – all of them make for readily attainable passwords and are poor choices for your company.

### ❌ Simple Dictionary Words

Especially if they're related to your business, e.g. baseball, football, or soccer for your sporting goods; or muffler, tire, or sparkplug for your auto garage.

### Use a Passphrase instead

Think of a passphrase. Next, substitute letters, characters, and abbreviations for parts of it. For example, "my first car was a honda in 1990" would be my1stc@r=honda90. With a strong password strategy, you're well on your way to preventing online attacks.

## International Corner

Geneva Group International (GGI)

KRD will be represented at the 2017 World Conference in Vienna, Austria where the seminar topics will include International Tax, "Preparation for Sale" (M&A), Real Estate, and Digital Megatrend in Audit Practices, amongst others.

As a member of GGI, KRD is able to assist your organization with international financial decisions and provide international law firm recommendations.



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Year-end Tax Planning Strategies

## It's Not Too Early to Think About Year-End Tax Planning

Here are a few tax-saving ideas to get you started. As always, you can call on us to help you sort through the options and implement strategies that make sense for you. We have additional ideas that may be applicable to your situation.

- **Secure a Deduction for Nearly Worthless Securities.** If you own securities that are all but worthless, you might consider selling them before the end of the year so you can capitalize on the loss this year.
- **Make Charitable Donations from Your IRA.** IRA owners and beneficiaries who have reached age 70 1/2 are permitted to make cash donations totaling up to \$100,000 per individual IRA owner per year – \$200,000/year maximum on a joint return.
- **Maximize Contributions to 401(k) Plans.** If you have a 401(k) plan at work, contribute as much as you can stand, especially if your employer makes matching contributions.
- **Take Advantage of Tax Breaks for Purchasing Equipment, Software, and Certain Real Property.** If you have plans to buy a business computer, office furniture, equipment, vehicle, or other tangible business property or to make certain improvements to real property, you might consider doing so before year-end to capitalize on tax breaks.
- **Evaluate Inventory for Damaged or Obsolete Items.** Inventory is normally valued for tax purposes at cost or the lower of cost or market value. Regardless of which of these methods is used, the end-of-the-year inventory should be reviewed to detect obsolete or damaged items.
- **Employ Your Child.** If you are self-employed, don't miss the opportunity to employ your child before the end of the year. Doing so has tax benefits in that it shifts income (which is not subject to the Kiddie tax) from you to your child, who normally is in a lower tax bracket or may avoid tax entirely due to the standard deduction.
- **Don't Overlook Estate Planning** For 2017, the unified federal gift and estate tax exemption is a generous \$5.49 million, and the federal estate tax rate is 40%. The gift tax annual exclusion will stay at \$14,000 for 2017 and can be made to an unlimited number of individuals.

## KRD Continues to Expand to Offer Our Clients More Services

We are pleased to welcome **Robert Eisenstadt** as a new partner on the KRD team. With over 30 years of public accounting experience, Rob focuses on serving the needs of his clients by providing strategic tax planning and business consulting, and evaluating opportunities to minimize risk and maximize profitability.

Additionally, we welcome the accounting firm of **Rockoff, Harlan Rasof (RHR)** to our KRD team. Our firms share the same business values with the number one priority being the satisfaction of our clients. Our combined firms will operate as Kutchins, Robbins & Diamond, Ltd. (KRD), totaling nearly 80 professionals with offices in Chicago and Schaumburg. The addition of Rob and the RHR team will allow us to continue to provide the same quality, personal service while also being able to offer a new and broader set of services.

We welcome the opportunity to discuss how KRD can help with your tax and financial planning, please call us at

**We Can Help**  
**847.240.1040**

