



Client News

SPRING | 2017

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- Tax Advantages for Business Expenses

CLIENT PROFILE:

Service & Solution Focused Supply Company...

Evolving from Humble Beginnings

For over 50 years, Industrial Wholesale & Lumber Inc. DBA Totem Lumber and Supply has been serving the commercial, residential, and industrial manufacturing markets in the Chicago area with innovative products and services including heat-treated and kiln-dried wood crating materials, shipping crates, custom packaging design and engineering, and vendor-managed inventory (VMI) services.

Based in Schiller Park, Illinois, IWL has come a long way from its early days as a hardwood mill to the world-class industrial and commercial wholesale lumber supply company it is today. Along with IWL's management team -- Karna Wilms, Mike Wilms Sr. and Rich Kovacs Sr., is Vice President Rich Kovacs Jr., who has been instrumental in guiding the company.

Success Rooted in Experience

When it comes to an in-depth knowledge of the business, understanding the industry, and having a keen eye and a steady hand on the tiller, Rich Jr. has experienced it all. He has been helping drive the company's growth and success since coming on board to work alongside his father, Rich Kovacs Sr., over 10 years ago.

From starting as a truck driver, to working in the yard, implementing IT projects, hitting the pavement for sales, to management, Rich has, and still wears many hats. In his current position as Vice President, he is charged with overseeing overall company operations, maintaining key vendor relationships, as well as driving innovation and process improvements that positively impact IWL's bottom line.

Service. Selection. Solutions.

When asked what has been fundamental to IWL's continued growth and success, Rich is quick to respond "IWL's longtime dedicated and loyal employees."

"Most of our 40 plus employees have been with IWL for many years and have considerable knowledge of the company's culture, products, and services. They possess a keen understanding of production procedures and manufacturing techniques, which ultimately leads to higher sales volume." noted Kovacs. "We like to promote from within



INDUSTRIAL AND WHOLESALE
LUMBER INC.

whenever possible. And we acknowledge, motivate, and reward hard work through a variety of means including paid benefit time and other forms of motivating incentives. We take time to have some fun too. Our quarterly cookouts are popular – lunch is provided and we all get to spend time getting to know one another better and enjoying some great food."

Also contributing to the success are its innovative products and services, many of which are proprietary to the company. IWL is the exclusive manufacturer of Sheet-Pak™ packaging containers for protecting and shipping various sizes of flat metals. This unique packaging system delivers an economically priced product with characteristics and features no other container manufacturer can offer.

A Solid Foundation for Continued Growth

The immediate future is looking bright for the industry. Chicago, for instance, is seeing a large influx of high-rise construction with 44 new buildings in the current pipeline. That number continues to grow and every job needs the raw materials IWL can provide. "The potential business is there. We just need to show our loyal customers we can come through for them when they need it most," commented Kovacs.

Using new technologies and supply process improvements like delivery truck GPS systems and material handling technology will also help contribute to the company's growth.

There are some external factors that could prove challenging though. US trade policies, including NAFTA and The Softwood Lumber Agreement are in play and the outcome, one way or another, can have a significant impact on IWL's business model. "We are keeping a close eye on the political landscape and will continue providing the service, products and value our customers have come to depend on from IWL." Kovacs said.

Whatever the outcome, KRD will be by their side, providing financial guidance and advice to help IWL achieve their business goals and strategy. "Chad Porter and the others at KRD are an invaluable resource for IWL," commented Kovacs. "We depend on them for solid financial advice and consider them an integral part of the IWL team."



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2017

TAX BRACKETS & PROPOSED CHANGES

Stay tuned to see how it will all shake out...

Taxable Income Single Individuals	2016 Tax Brackets	Potential Future Tax Brackets
\$0 to \$9,325	10%	Raises to 12%
\$9,326 to \$37,950	15%	Drops to 12%
\$37,951 to \$91,900	25%	Remains at 25%
\$91,901 to \$190,650	28%	Drops to 25%
\$190,651 to \$416,700	33%	Remains at 33%
\$416,701 to \$418,400	35%	Drops to 33%
Over \$418,400	39.6%	Drops to 33%

Taxable Income Married Filing Jointly	2016 Tax Brackets	Potential Future Tax Brackets
\$0 to \$18,650	10%	Raises to 12%
\$18,651 to \$75,900	15%	Drops to 12%
\$75,901 to \$153,100	25%	Remains at 25%
\$153,101 to \$233,350	28%	Drops to 25%
\$233,351 to \$416,700	33%	Remains at 33%
\$416,701 to \$470,700	35%	Drops to 33%
Over \$470,700	39.6%	Drops to 33%

2017 Limited Itemized Deductions for individuals begins with incomes of \$287,650 (\$313,800 for MFJ) Proposed to cap at \$100,000 for individuals, and \$200,000 MFJ

2017 Standard Deduction for single taxpayer: \$6,350 (\$12,700 MFJ)

2017 Alternative Minimum Tax (AMT) Exemption \$54,300 for singles & has a phase out at \$120,700; AMT is \$84,500 for MFJ & has a phase out at \$160,900

2017 Personal Exemption \$4,050; subject to AGI (Adjusted Gross Income) phase out that begins at \$261,500 to \$384,000 for singles; and begins at \$313,800 to \$436,300 for MFJ

2017 Limitation for the Qualified Transportation fringe benefit & qualified parking is \$255/month

2017 Lifetime Learning Credit Amount used by MFJ to determine the reduction: \$112,000 AGI

2017 Estates of Decedents who die during 2017 have a basic exclusion amount of \$5,490,000

2017 Health Care Coverage Penalty for not maintaining minimum essential health coverage: \$695

Key Internal Controls

By Rob Haak | CPA, MBA

The integrity of any organization is based on the operating effectiveness and efficiency of that entity's internal controls. Often, small and midsize businesses lack the standardization of controls across the entity and sufficient personnel to carry out controls properly. By focusing on a few key internal controls that have a pervasive affect over the entire organization, a business can maximize the use of its resources.

A key element of any audit is evaluating the design effectiveness of an entity's system of internal controls - both entity-level and activity-level controls. Small and midsize businesses can greatly impact their system of internal controls by focusing on entity-level controls. Because most entity-level controls are informal and performed by management or those charged with governance, the attitudes and integrity of these individuals is of the utmost importance. Entity-level control examples include communication and enforcement of ethical values, appropriate assignment of authority and responsibility, and the creation of policies and procedures to prevent or detect fraud.

It is the responsibility of management to communicate these ethical values to the rest of the organization. An organization's structure should have clear lines of authority and responsibility. This protects an employee from accusations of misappropriations outside the scope of his or her responsibilities and by outlining how an employee's performance will be evaluated. Also, the organization benefits from prevention of errors and fraud.

It is the responsibility of management to take an active role in oversight and be involved in control activities such as reviewing supporting documentation for large purchases or requiring approval for certain transactions. In addition, management's involvement in day-to-day processes provides another valuable control. Management should be reviewing selected bank statements, sales and A/R, purchases and A/P, expenses, inventory counts, and supporting documents.

Lastly, although activity-level controls may be difficult to implement in small organizations, they can provide a business with additional internal controls. Activity-level examples include approval of new vendors, bank account reconciliation, and time card approval policies.

Organizations should always take advantage of features offered in the software it utilizes. The control could be as simple as requiring authorization on an expense report or password changes every few months. Management should analyze the unique components of its organization. From the analysis results, a specific plan can be created for that entity reducing the risk of intentional and unintentional errors.

Although the responsibility for an organization's control environment ultimately rests with the board of governance and management, auditors are required to evaluate the level of risk and determine whether internal controls are in place and being utilized to mitigate this risk in every audit; the evaluation evolves with the growth and development of an organization and its personnel.

Fringe Benefits that Attract and Retain the Best Employees for Small Businesses



Hiring and retaining a talented team is difficult. Often larger rivals have more resources to offer better benefits. However, consider these tax-free employee benefit options that the IRS allows small business owners provided that every employee has access to the benefits.

Achievement Awards – Employees generally don't have to pay tax on awards granted for length of service or safety achievements, so long as the items don't exceed \$1,600 in value in a given year.

Meals – Feeding your team can be a welcome tax-free benefit. As simple as donuts and coffee to buying lunch from a restaurant, or setting up an on-site cafeteria for staff.

Athletic Facilities – On-site athletic facilities for use by employees, their spouses and their dependent children can offer access as a tax-exempt benefit. *Note: This does not include gym memberships.*

De Minimis Benefits – These benefits are defined as property or a service that has "so little value" that accounting for it would be unreasonable. As a result, they're tax-exempt. These tend to include theater tickets and occasional company parties.

Educational Assistance – Include tuition assistance, books, equipment and other expenses related to continuing education. Eligible employees can receive up to \$5,520 in annual tax-exempt assistance.

Life Insurance Coverage – This is tax-exempt up to the first \$50,000 in benefits offered to insured employees.

Health & Accidental Death Benefits – Contributions made to health plans on behalf of employees are generally exempt from federal unemployment tax and most income tax, however, there are exceptions – talk with us.

Health Savings Accounts (HSA) – Qualifying employees covered by a high-deductible health plan can contribute, tax-free, up to \$3,350 for just themselves or \$6,750 for a family to cover out-of-pocket health expenses – Limits apply.

Qualified Transportation benefits – Up to \$255 monthly for transit passes and other shared commuting services is tax-free. Or, for employees who drive, up to \$255 monthly for parking.

Working Condition Benefits – Employees are allowed tax-free access to equipment to perform their jobs. This may include paying monthly reimbursements for the cost of a mobile phone used for business.

KRD Volunteers!



- Teaching English and translating documents for Latinos
- Helping feed starving children
- Visiting sick children in the hospital on holidays
- Sponsoring educational organizations
- Assisting after school programs
- Moderating at conferences to teach young girls and ladies how to achieve their highest potential

International Corner

Geneva Group International (GGI)

KRD has been a member of GGI since 2011; GGI is a worldwide alliance of experienced accounting, consulting and law firms that provide clients with solutions for international business requirements.

KRD will attend the 2017 North American Regional GGI Conference in Canada. As defined by the special breakout sessions, the conference will cover topics on auditing, reporting and compliance; global mobility solutions and tax.

Let us know if we can be assistance to your organization with any international financial decisions.



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INDEPENDENT MEMBER

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Tax Advantages for Business Expenses

The tax code generally governs which expenses a business can deduct from their taxes and the year the deductions can be taken. **Current expenses** (as opposed to capital expenses) are day-to-day expenses – rent, paper, printer ink – that can be deducted from the business' gross income during the year the expense was incurred. **Capital expenses** are deductions for assets that a business expects will generate revenue for several years beyond the purchase date – buildings, equipment, vehicles. Deductions for capital expenses are typically spread over several years – also known as capitalization, amortization, or depreciation; this helps a business accurately assess their profitability from year to year.



Section 179, on the other hand, allows businesses to deduct expenses the IRS would normally consider capital expenses. With Section 179 the full purchase price of *qualifying* equipment and/or software purchased or financed during the tax year can be deducted from your gross income as long as it is placed in service by midnight December 31, 2017. The Section 179 deduction limit for any taxable year cannot exceed \$500,000 (and is eliminated above \$2.5 million). Additionally the deduction can't exceed the business' total income for the year – if your business income is \$300,000 in a year, and the value of the property placed into service is \$350,000, the business can only take a \$300,000 tax deduction in the given year and then carry over the remaining \$50,000 in the next year.

As with all taxable deductions, specific IRS rules apply to Section 179 property – type of software, type of vehicle, etc. Call us to help determine the best opportunities for your next property investment including Section 179 and the Bonus Depreciation.

KRD Merges with Popowcer Katten

KRD welcomes to our team the accounting firm of Popowcer Katten, Ltd. Effective as of January 1, 2017, our combined firms will operate as Kutchins, Robbins & Diamond, Ltd.

Now with two locations:

- 1101 Perimeter Drive, Suite 760
Schaumburg, IL 60173
- 35 East Wacker Drive,
Chicago, IL 60601

We are excited to add the Chicago location to better serve you.



KRD IS AWARDED...

**Best of Schaumburg
Accounting, Auditing,
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7 Consecutive Years



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

