



STATEMENTS

Fourth Quarter 2016



S Corporation Election Considerations

by Jesús Guijarro, Audit Manager

One of the most popular legal structures for a small business is the S corporation. An electing S corporation is simply a domestic business entity that is treated as a corporation for federal tax purposes and that has elected under Section 1362(a) of the Internal Revenue Code to be governed by Subchapter S of the Code. In recent years, this type of legal structure has become very popular due to the attractive feature of avoiding double taxation on the corporate income. S corporations elect to pass corporate income, losses and other deductions to shareholders who then become responsible for the tax effect in their individual tax filings at their individual income tax rates. Among the business population, there is a belief that electing the S corporation status is the best way to structure a business and the best choice for any business. However, before making the decision and filing to become an S corporation, business owners must consider the impact of current and future transactions which can trigger an S status disqualification or a possible disruptive taxable event at the corporate level. One thing is for certain, electing S corporation status is not for everyone.

The following are some examples of conditions which must be considered:

Company owners need to be aware of the taxable impact of having receivables on their books at the time of the S election. Regardless of the “flow-through” feature of an S election, collection of receivables may trigger a taxable event at the corporate level due to the concept of built-in gains. In many instances, accounting records which are not subject to periodic financial audits, are kept on the cash basis of accounting and do not reflect certain balances otherwise shown by accrual basis accounting. A poorly planned election under the subchapter S can overlook the existence of a built-in gain due to the existence of accounts receivable balances or other current assets, which have not yet been recognized for tax purposes.

This is one of the reasons why personal services corporations may not benefit from an S election. For example, a cash-basis corporation with a \$500,000 accounts receivable balance at the time the S election is made will be subject to the built-in gain recognition and liable for a tax on the collection of those receivables. A corporation at 35% tax rate may be liable for a federal tax bill as high as \$175,000 from the collection of these receivables. This built-in-gain tax would be in addition to the tax that may be imposed on its

shareholders under the rules generally applicable to S corporations.

Another area of concern is holding companies making the S election.

A holding company exists for the sole purpose of controlling another company, rather than for the purpose of producing its own goods or services. Under the S corporation structure, a holding company

—continued on page 4

A member of



Attention to U.S. born people living abroad: You must file a FINCen 114 (Foreign Bank Account Report) if:

- you are a U. S. citizen and have a financial interest in at least one financial account located outside of the United States; and
- the aggregate value of all foreign financial accounts exceeds \$10,000 at any time during the calendar year reported.

MGI Worldwide is a network of independent audit, tax, accounting and consulting firms. MGI Worldwide does not provide any services and its member firms are not an international partnership. Each member firm is a separate entity and neither MGI Worldwide nor any member firm accepts responsibility for the activities, work, opinions or services of any other member firm. For more information visit www.mgiworld.com/legal.

INSIDE THIS ISSUE

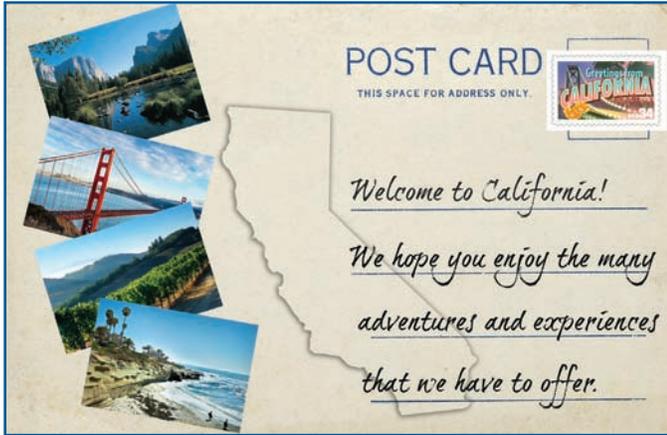
Client Profile: Keeping California Top-of-Mind as a Travel Destination	Page 2
Small Businesses Can Now Offset their Payroll Tax Liabilities with Research Tax Credits	Page 3
RINA Gives Back: Girl Scouts of Northern California	Page 4
Fourth Quarter Calendar	Page 4



Client Profile

Keeping California Top-of-Mind as a Travel Destination

by Pamela Raumer, Business Development Director



Visit California, a nonprofit corporation headquartered in Sacramento, was created to market California as a premier travel destination and to increase the state's share of tourism-related revenues. The organization has a big job: Marketing the entire state of California to 14 markets around the globe and communicating its value to 13,000 businesses each year that invest in the California Tourism Assessment Program. Investors include hotels and accommodations, restaurants, rental car agencies, retail, entertainment attractions and recreation, transportation and travel services.

Matt Sabbatini, Chief Operations Officer, manages “an amazing staff” whose responsibility is to build investors' confidence and inspire travelers to come to California by conducting thorough research, running a lean organization, implementing innovative

marketing programs and using a gold standard funding model. Last year, travelers in California spent \$122.5 billion, generating \$9.9 billion in state and local tax revenue and created one million jobs for Californians.

Visit California oversees 17 Welcome Centers that service travelers by providing destination, attraction, performing arts and accommodations brochures, providing internet access, regional merchandise, and attraction ticket sales.

Visit California's international presence includes offices in China, Mexico, Italy, South Korea, United Kingdom, Scandinavia, India, France, Germany, Brazil, Japan, Canada and Australia. The offices are charged with executing direct-to-consumer marketing campaigns in top-tier markets, as well as robust initiatives targeting the media and travel trade in each country. International travelers are a key aspect of Visit California's global marketing investments, as they tend to stay longer and spend more than their domestic counterparts.

Visit California is known for its “Dream Big” TV commercials featuring William Shatner, Joe Montana, January Jones, Shaun White and other celebrities who show the diversity of California's offerings. Endless sunshine, amazing cities, best-in-class theme parks and incredible natural treasures — California has all the iconic destinations people dream of visiting, plus countless incredible off-the-beaten-track experiences. With exclusive trip itineraries, visitors can visit bucket-list landmarks like Yosemite, then follow a wine country road or visit a craft brewery. So start dreaming about a California vacation — and dream big.

“Over the years, as RINA has become very familiar with our administrative processes and controls, they have become a resource and business partner to Visit California management—whilst always maintaining a keen sense of independence. They provide us with unbiased expert recommendations—void of individual preferences and aversions...with the single minded purpose of improving our business. When conceptual accounting issue arises, they are accessible for comment and they make themselves available to explore various methodologies and alternative accounting treatments.”



Small Businesses Can Now Offset their Payroll Tax Liabilities with Research Tax Credits

by Nick Lawrence, Tax Manager



Starting with tax years beginning in calendar year 2016, many of you can, subject to limits, elect to apply all or some of any research tax credits that you earn against your payroll taxes instead of your income tax (the payroll tax election). The payroll tax election may influence some of you to undertake or increase your research activities. On the other hand, if you are engaged in or are planning to engage in research activities without regard to tax consequences, let the below discussion simply serve as notice that some tax relief could be in your future.

Why is the election important?

Many new businesses, even if they have some cash flow, or net positive cash flow and/or a book profit, pay no income taxes and won't for some time. Thus, there is no amount against which business credits, including the research credit, can be applied. On the other hand, any wage-paying business, even a new one, has payroll tax liabilities. The payroll tax election is thus an opportunity to get immediate use out of the research credits that you earn. Because every dollar of credit-eligible expenditure can result in as much as a 10 cent tax credit, that's a big help in the start-up phase of a business—the time when help is most needed.

What businesses are eligible?

To qualify for the election a taxpayer (1) must have gross receipts for the election year of less than \$5 million and (2) be no more

than five years past the period for which it had no receipts (the start-up period). In making these determinations, the only gross receipts that an individual taxpayer takes into account are from the individual's businesses. An individual's salary, investment income or other income aren't taken into account. Note also that neither an entity nor individual can make the election for more than six years in a row.

Limits on the election?

Research credits for which the taxpayer makes the payroll tax election can be applied only against the employer's old-age, survivors and disability liability—the OASDI or "social security" portion of FICA taxes. So the election can't be used to lower (1) the employer's liability for the "Medicare" portion of FICA taxes or (2) any FICA taxes that the employer withholds and remits to the government on behalf of employees.

The amount of research credit for which the election can be made can't annually exceed \$250,000. Note too that an individual or C corporation can make the election only for those research credits which, in the absence of an election, would have to be carried forward. In other words, a C corporation can't make the election for research credits that the taxpayer can use to reduce current or past income tax liabilities. Contact your RINA Representative if you have any questions.

RINA Fourth Quarter

OCTOBER

October 17

- Final due date for 2015 tax returns for individuals who filed an automatic six-month extension.

October 31

- Third quarter 2016 payroll and sales tax returns due.

NOVEMBER

November 15

- Final due date for 2015 calendar-year exempt returns who filed additional extension requests.

DECEMBER

December 31

- Final due date for calendar establishing qualified retirement plans for 2016 calendar-year taxpayers

Coming up in January

January 17

- Fourth quarter 2016 estimated income tax payments for individuals due.

January 31

- Fourth quarter 2016 payroll and sales tax returns due.
- 2016 Form W-2, Wages and Tax Statement to be furnished to employees from employers.
- 2016 Form 1099 to recipients of dividends, interest, non-employer compensation, etc.



accountancy corporation

Established 1946 • www.rina.com
Member of MGI

475 14th St., Suite 1200, Oakland, CA 94612
(510) 893-6908 / eFax: (510) 873-0977 / 1-800-RINA CPA

201 N. Civic Dr., Ste. 220, Walnut Creek, CA 94596
(925) 210-2180 / eFax: (925) 210-2190

100 Montgomery St., Suite 2075, San Francisco, CA 94104
(415) 777-4488 / eFax: (415) 837-1260

STATEMENTS is published quarterly by RINA accountancy corporation for clients, employees and associates

Any tax advice contained in the body of this newsletter was not intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.

Connect With Us



RINA Gives Back

Girl Scouts of Northern California

by Amanda Vergara, Marketing Coordinator



Tracy Teale, Stockholder and Not-For-Profit Practice Group Leader is a board member and on the audit committee for Girl Scouts of Northern California, an organization that empowers girls to become leaders of our future. Her recent involvement was being a mentor for Camp CEO, an “amazing”, leadership program that sends 70 high-school girls from underserved communities to the Stanislaus National Forest along with successful executive women from the Bay Area as mentors and role-models. Over the course of 3 days, the campers and mentors tackle the ropes course; organic gardening, hiking and hands-on growth mind-set and goal setting lessons. During the camp, the girls and mentors have the opportunity to interact with each other opposed to being formally assigned to each other. “The mentors got as much from the mentees as the mentees got from the mentors. Great experience.”

Growing up in an underserved community herself, Tracy has a passion in giving youth and especially girls, opportunities to identify and tackle new opportunities such as the STEM program. STEM (science, technology, engineering, and math) is a diverse program in which girls have the opportunity to develop leadership abilities and technical skills that will ignite an invested interest in these areas and set them up for future success. There are a lot of fundraising activities planned for the future and Tracy plans to spend about 40 hours a year volunteering for GSNC.

S Corporation Election Considerations — continued from page 1

with C corporation earnings and profits (E&P) could be subject to excise taxes if its passive income exceeds certain thresholds. Congress enacted the accumulated earnings tax (AET) to incentivize corporations to pay dividends to their shareholders on a current basis and penalizing them for not doing so. The AET currently imposes a rate of 20% on any corporation that is formed for the purpose of avoiding the income tax with respect to its shareholders by permitting earnings and profits to accumulate rather than be distributed.

Another important aspect to keep in mind is related to unexpired net operating losses (NOL's) at the beginning of the period for which the S election applies. While an S corporation, these losses continue to roll forward and the carryforward period continues to toll. Under current law, NOL carry forwards expire in 20 years. However, any unexpired NOL's could be used against any built-in-gains recognized during the 5-year recognition period by the corporation.