Personnel and Compensation

Tax and Business Update

Portney & Company, CPA's
70 Grand Ave Ste 107
River Edge, NJ 07661
201-862-0500

Employment Laws

Any new employer will need to become familiar with a multitude of labor laws and regulations that can be placed into the following categories (a listing of the laws applicable to each of these categories is available at *www.dol.gov*):

- Disability resources.
- Federal contract compliance.
- Grants and contracts.
- Hiring and termination issues.
- Retirement and health benefits.
- Veterans' employment and training.
- Wages and work hours.
- Workers' compensation.
- Workplace safety and health.

The agriculture, mining and construction industries are subject to additional employment laws with information available at the Department of Labor website (*www.dol.gov*). The website also includes information on various state labor laws.

New business owners should consider conferring with an employment lawyer for advice on the many labor laws and regulations.

Advantages of Independent Contractor Status

By hiring independent contractors (ICs), not employees, a business would not have to:

- Withhold federal, state or local income taxes;
- Withhold and pay matching FICA taxes;
- Pay federal and state unemployment or disability taxes;
- Meet federal and state overtime or minimum wage laws;
- Include the workers in retirement plans and fringe benefits and
- Include the ICs in workers' compensation coverage.

Advantages of Hiring Children in the Family Business

Income shifting. The business owner deducts reasonable compensation paid to the child and the child receives and reports earned income from compensation, which is often taxed at a lower rate than the business income would have been. A child claimed as a dependent is entitled to a standard deduction equal to the greater of $1,050 for 2016 and 2017 or earned income plus $350, up to a maximum of $6,300 for 2016 and $6,350 for 2017.

Fringe benefits. The child-employee may be eligible to participate in employer-sponsored fringe benefits (such as health and disability insurance or an employer-provided vehicle for business travel).

Payroll tax exemption. Wages and compensation paid by a sole proprietorship (or partnership, if the parents of the child are the only partners) to the proprietor's (or partner's) child who is under age 18 are exempt from FICA payroll taxes. Similarly, this compensation is exempt from FUTA tax if the child of the proprietor (or partner) is under age 21. However, federal income tax withholding will apply unless the child can claim an exemption from withholding.

Individual Retirement Account (IRA) opportunity. Earned income paid to the child enables the child to fund an IRA contribution [up to the lesser of $5,500 (for 2016 and 2017) or 100% of earned income]. Usually, the child will qualify to make a deductible contribution to a traditional IRA since he is either not covered by an employer retirement plan or his income is beneath a certain level. A Roth IRA, which potentially allows all earnings to be tax-free, may be another attractive option for a child, due to the child's long horizon for saving. Compounding income either tax-deferred or tax-free for many years is a powerful way to build wealth.

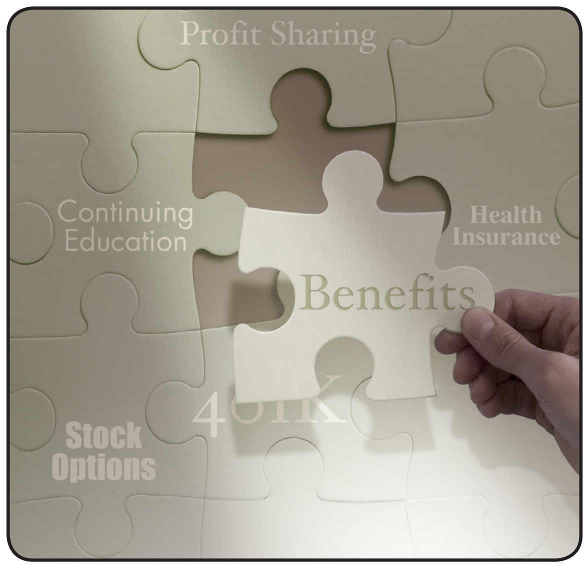
Employer Stock Options

A stock option is a contractual right granted an employee to purchase shares of the company's stock under a plan. The plan normally specifies how many options may be granted, who may participate, the option price, the form of payment, the periods for exercising options and making payment, and other matters. Shareholders usually must vote to approve the option plan.

Stock Option Terminology	
Grant Date	The date on which an employee receives an option.
Exercise Date	The date when the employee exercises the option to buy stock.
Option Price	The price at which the stock can be purchased under the terms of the option. Also called the *exercise price* or the *strike price*.
Bargain Element	The difference between the fair market value (FMV) of the stock and the option price of an in-the-money option.
Even-Money	When the option price equals the FMV of the stock.
In-the-Money	When the option price is less than the FMV of the stock.
Under Water	When the option price is greater than the FMV of the stock.
Vested	No restrictions on transferability.
Vesting	Attaining the right to exercise options because service or other requirements have been met.
Incentive Stock Options (ISOs)	Also called qualified stock options, they must meet certain statutory requirements. If all the requirements are met, an ISO benefits the employee by allowing for capital gains taxation on the future appreciation of the underlying stock.
Nonqualified Stock Options (NQSOs)	Not subject to any specific statutory rules. They generally create compensation income for the employee and an offsetting deduction for the employer upon exercise.

Tax Implications of Incentive Stock Options (ISOs)

- Neither the grant nor the exercise of an ISO creates compensation income to the employee, but the employee may have an alternative minimum tax adjustment upon exercise.
- The exercise price becomes the purchase price and the employee's basis in the acquired stock.
- The employee recognizes taxable income or loss when the stock acquired through the option's exercise is disposed of.
- The character of the income (ordinary versus capital gain) from the sale of the ISO shares depends on whether the sale is a qualifying or disqualifying disposition.



Portney & Company, CPA's
70 Grand Ave Ste 107
River Edge, NJ 07661
201-862-0500