volume 36, number 2

assets

a business, tax, and financial newsletter

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Automobile leasing has grown in popularity over the past several years, but many people still hesitate to enter into a lease. This may be because there are so many factors to consider that it seems easier to buy a vehicle. Under the right circumstances, however, leasing an automobile can save you considerable money, and even taxes. No one can tell you which option is better without knowing your particular situation, but these factors may impact your decision.

How Does Leasing Work?

When you lease an automobile, you only pay for the portion of it that you use, or the amount by which it depreciates. Many people hesitate because, at the end of the lease, they don't own anything. But, that's exactly why lease payments are lower than loan payments. You're not buying the leftover value in the car—you're buying only what you use.

A lease payment consists of a depreciation charge and a finance charge. The finance charge is much like the interest you would pay on a car loan. The depreciation charge is determined by dividing the value of the car that you use by the number of months in the lease. Without considering the tax effects, the short-term cost of leasing compared to buying is about the same. This assumes that you sell your car after the loan is paid off for its full market value. But as you well know, this is often not the case, especially if the car is used as a trade-in. If you are apt to keep your car for 10 years, then buying may be your best option. What about the tax effects? Ultimately, the *tax cost* of leasing versus buying may be about the same. However, the timing of when you get the deductions can be greatly impacted by your decision.

Claiming Tax Deductions on Leases

Because you do not own a car that you lease, you are not allowed to depreciate it. You can, however, deduct at least some of the cost of operating a car leased primarily for business purposes. Keep in mind that you are only allowed to deduct the business portion of the costs of a lease if the car is also used for personal purposes, such as commuting.

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Important Considerations for Workplace Monitoring

Many large U.S. companies and organizations have some form of workplace surveillance system in place for monitoring security. But with advances in technology, workplace monitoring has come of age and is also available to small business owners, to closely observe employee behavior. While many employers may use workplace monitoring for what they believe to be legitimate purposes, such as checking employee productivity, performing business-related quality control, or tracking sources of leaks in confidential company information, companies need to formulate specific guidelines—and adhere to them—for the proper usage of security systems, in order to abide by existing laws that help protect employee privacy.

Privacy Laws and Violations

For some companies, an important reason to monitor the workplace is to focus on protecting the business from potential legal problems that could arise if an employee were to use a company computer for improper, or even illegal, activities online. Other business owners may have legitimate concerns about employee productivity after noticing a downward shift in the workflow. The challenge with Internet monitoring and other workplace surveillance tools is to not only protect your interests as an employer and business owner, but in so doing, to retain the trust of your employees by protecting their privacy.

Since camera security systems and Internet browsing restrictions are standards in workplace monitoring today, there are certain protocols employers should consider when setting up a surveillance system. For example, security cameras should never be installed in bathrooms or other areas in the building where employees may undress or change their clothes, and workplace surveillance content showing employees should never be distributed in public.

The Electronic Communications Privacy Act (ECPA), enacted in 1986, includes provisions for the access, use, disclosure, and interception of electronic, wire, and oral communications. It also provides privacy protections for such communications. For instance, the ECPA does not prohibit an employer from reading an employee's electronic communications, including emails and instant messages. However, an employee may be protected under the ECPA if an employer were to monitor a private conversation being conducted on an employee's own phone. On the other hand, the ECPA may not protect an employee from being monitored when using a company-owned phone or computer, particularly when accessing the Internet.

The Methodology

Since an employer owns the company's computer network, he or she has the right to use certain monitoring techniques for business-related reasons, such as to check employee productivity levels. These techniques include the following:

- **Keystroke monitoring**, which reports the number of keystrokes per hour generated by each employee
- **Computer-monitoring software**, which allows an employer to see what is on an employee's computer screen or stored on a computer's hard drives
- **Idle time tracking**, which monitors computers for time spent away from the computer

It is important to note that some employees may be protected from workplace monitoring under certain circumstances. An employer's right to monitor employees may be limited in certain states under specific statutes. Restrictions may also apply to employees with a union contract or who work in the public sector.

As a business owner, you want to ensure the security and safety of your company, property, and workforce. Your concerns may include guarding your company's secrets, evaluating the performance of your employees, and protecting your business from a possible lawsuit due to illegal online activity conducted on company time. While there are effective surveillance tools and techniques that can help you operate your company more efficiently, there are protocols that need to be followed with respect to workplace monitoring, and privacy laws to be aware of that protect your employees. To keep track of inappropriate employee behavior that may occur within your company, remember to establish workplace surveillance guidelines before setting up a security system.

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You have two options for figuring your deductible expense on a business vehicle that is leased for more than 30 days: the standard mileage rate allowance or actual expenses method. The standard mileage rate allowance is easier to calculate, but it may provide less tax relief than the actual expenses method if you do not drive a lot of miles or if your car is relatively expensive.

The standard mileage allowance is a cents-per-mile allowance that takes the place of deductions for lease payments; vehicle registration fees; and the expenditures on gas, oil, insurance, maintenance, and repairs. The standard mileage allowance rate for business use of a car—leased or owned—is 54 cents a mile in 2016. To figure out your deduction, simply multiply the rate by the number of miles driven.

The actual expenses method generally allows you to deduct all out-of-pocket expenses for operating your car for business, from lease payments to repair costs. If the car you have leased has fair market value in excess of the luxury vehicle threshold according to the IRS, your deduction is reduced by a so-called "inclusion amount," which is added to your gross income. This additional sum brings your deduction roughly in line with the depreciation you would have been able to claim as the car's owner.

Inclusion amount tables in IRS Publication 463 can help you determine the inclusion amount that applies in your case. Because the inclusion amounts increase from year to year in the course of a lease, you may want to consider taking out a lease with a term of no more than two years.

Any advance payments on the lease must be deducted over the entire lease period. If you take out a lease with an option to buy, you can deduct the payments if the arrangement is set up as a lease. If, however, the arrangement amounts to a purchase agreement, the payments are not deductible.

Leases—Hidden Traps

Despite the limits on deductions for luxury vehicles, the available tax breaks for business owners are generous enough to make leasing an attractive alternative to buying—especially if you want to change cars frequently. Before you sign on the dotted line, consider the potential pitfalls involved in leasing:

Mileage limits: All leases have mileage limits, usually 12,000 or 15,000 miles. If it's probable that you'll rack up more miles, you could face costly penalties. Try to negotiate the mileage limit up in exchange for higher lease payments. Or, buy the car.

Open-end leases: In an open-end lease, the residual value is re-determined at the end of the lease. If the residual value is lower than initially projected, you have to make up the difference. Closed-end leases avoid this problem, but your payments may be higher.

Early termination: When leasing, be sure to keep the car for the entire lease period. Penalties for early termination are severe and are usually difficult to get out of. If you're not sure how long you'll keep the car, consider a shorter lease term or purchase it.

While laws require dealers to disclose more information on leases, key information can be buried in the fine print or omitted completely, like the interest rate that you are being charged. Be sure you completely understand the terms before signing on the dotted line. Leasing your next automobile can either make a lot of sense, or it can be a big mistake. Your tax professional can help you consider all of the factors and make the right choice. ■

The Four Forms of Co-Ownership

Owning property with another individual or partner may create a complicated relationship. Due to the complexity of the situation, the way in which you take title or ownership must be determined *in advance*. Consulting with your legal professional can help you establish the form of ownership in such a way that will benefit you and your future heirs. The four forms of co-ownership, one of which will likely be better suited to *your* circumstances, are as follows:

Tenancy in common. This is a form of co-ownership often used between unrelated individuals. Tenants in common may own unequal shares of property. For example, one person could own a one-fourth interest and another could own a three-fourths interest as tenants in common. If the shares of the co-owners are not specifically designated, they are presumed to be equal or proportionate.

Tenants in common are said to hold "undivided" interests with the other co-owners. This means each co-owner owns a proportionate interest in the entire property. So, if two people are equal tenants in common to a parcel of land, it is inaccurate to identify one as owning the west half and the other as owning the east half. Rather, both co-owners own a one-half interest in the entire parcel.

Joint ownership. This specific type of co-ownership has unique legal characteristics. Unlike a tenancy in common, where co-owners may possess unequal interests, the legal interest of each joint owner is equal to the interest of every other joint owner. If there are three joint owners, each owns an equal, undivided, one-third interest in the entire property. However, this proportionality does not necessarily apply to the tax consequences of joint ownership.

The most important legal component of a joint ownership is the **right of survivorship**, which means that when a joint owner dies, the surviving joint owners automatically succeed in ownership of the deceased joint owner's interest in the property. For example, if there are two joint owners and one of them passes away, the surviving joint owner automatically owns the entire property. If there are three joint owners and one of them passes away, each of the two surviving joint owners automatically becomes one-half owner of the entire property. The survivorship rights of a joint owner take precedence over the claims of the deceased joint owner's creditors. This form of ownership may be common among married couples.

Tenancy by the entirety. This form of co-ownership is recognized by many states as a variation of joint ownership that applies only to spouses. A tenancy by the entirety generally has the same legal characteristics of a joint ownership with a few additional features. Normally, the protection against the claims of creditors that applies to joint tenancies at the death of a joint tenant is also available against the lifetime creditors of the tenant by the entirety.

Community property applies to married couples who own property in any of the following nine states, which are sometimes referred to as community property states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. Regardless of whose name is on any ownership papers, such as a deed, any property accumulated during the marriage is "owned" by both parties. This includes cash, real estate, and any other acquired assets.

Remember, splitting property, for any reason, can be a difficult task. Therefore, the decision to purchase property with another party requires careful consideration. Consult your legal and tax professionals for the most suitable course of action to take. ■

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