



*Dear Clients and Friends,
It's hard to believe the
summer is almost over.
It has been a tumultuous
few months. Continued
fighting in the Middle
East has elevated oil and
gas prices to more than
three dollars per gallon
at the pump. If you drive
an SUV like many people*

*in the country, it can cost close to \$100.00 to fill
the tank. Businesses that have a fleet of trucks
are feeling the bite even more. The real estate
market, booming during the last few years, has
come to a screeching halt. While prices are not
coming down substantially yet, home inventory is
sitting on the market for a much longer period of
time. Interest rates, while still historically low,
have dramatically risen over the past year. Our
stock market is volatile and erratic, and many are
finding solace in earning close to six percent on
short term CDs. So what does all this mean and
what should you do during this economic
uncertainty?*

*Stick to the basic fundamentals of investing:
double check that your assets are properly
allocated and continue to systematically save
additional funds. Proper allocation will allow you
to benefit from the rebound of assets which may
be oversold at this time. This long term
philosophy benefits those who are patient.
People who overleveraged themselves buying
real estate may be forced to sell, thereby creating
opportunities for those among us who have
liquidity to put to work.*

*To summarize our investment philosophy, we
suggest you follow the markets, pay down debt,
save money, and always be looking for buying
opportunities that may benefit you in the long
term. Should you have any questions, do not
hesitate to give us a call.*

*Enjoy the remaining warm weather. And, as
always, thank you for your business and your
continued referrals.*

*Very truly yours,
Michael S. Lewis, CPA
Managing Partner*

The Importance of Proper Entity Selection in Real Estate

*Jonathan M. Crate and
Anthony Pentz, CPA, MST*

If you own rental real estate or are considering purchasing an investment property, there are certain facts of which you should be aware. Although many property owners elect to hold their investments in a corporation for liability protection, from a tax planning standpoint, this may not be the ideal course of action. In most circumstances, rental real estate should be held in a limited liability company (LLC) or a limited partnership. Here's why:

- If you hold real estate in a C-Corporation and decide to sell the property, you will be subject to double taxation. The corporation will pay tax on the appreciation of the property value, and the shareholders will pay tax when the proceeds from the sale are distributed to them. In an LLC,

however, all income and gains are passed through to the owners, and tax is paid only at the personal level.

- Rental losses from real estate owned by a C-Corporation must be kept in the corporation and either carried back to prior years or forward to future years. In contrast, losses from rental real estate held in an LLC flow through to the owners in the current year and may be used to offset rental income from other properties.
- Finally, when you decide to sell the corporation, you will likely run into resistance from potential buyers, who resist buying the stock of a corporation that owns real estate because they do not get a step-up in basis for the real estate. Buyers usually want to buy the real estate only, which may lead to double taxation.

Electing to be treated as an S-Corporation, where income passes through to the shareholders, rather than a C-Corporation may alleviate many of these issues. However, a few major problems are still unavoidable.

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Vacation Homes Come with Tax Benefits

William Schwarz, CPA, MST

Renting your vacation home can prove to be a valuable source of additional income. Of course, as with all types of income, there are tax implications that may need to be addressed. To ensure you receive the most tax breaks possible, you will need to accurately track the amount of time you and your family spend at your vacation home, as this is the measurement that dictates how the IRS treats the property.

Personal use includes vacation use by you or your relatives (even if you charge them market rate rent) as well as use by non-relatives if a market rate rent is not charged. Days spent working on your vacation home are not counted as personal use days if they are primarily spent making repairs or preparing the property for rental.

If the property is rented out for fewer than 15 days during the year it is not treated as "rental property" at all. The rental income you collect is tax-free and need not be reported as income, no matter how substantial the amount. This is particularly beneficial when taxpayers can receive high rents for a short period of time because of a special event taking place in the area. On the other hand, only property taxes and mortgage interest (generally deductible on your principal residence and one other home) will be

deductible; no other operating costs, including depreciation, will be allowed.

If the property is rented out for more than 14 days, the rent received must be included in income. The good news is that deducting part of the operating expenses, including depreciation, will be allowed, subject to the following rules. First, expenses must be allocated between the personal use days and the rental days. For example, if the house is rented for 90 days and used personally for 30 days, then 75% of the use is rental (90 days out of 120 total days of use). 75% of the maintenance, utilities, insurance, etc., would be allocated to the rental activity, as would 75% of the depreciation, interest, and taxes for the property. The personal use portion of taxes is separately deductible. The personal use portion of interest on a second home is also deductible when (as is the case here) the personal use exceeds the greater of 14 days or 10% of the rental days. However, depreciation on the personal use portion is not allowed.

If the rental income exceeds the allocable deductions, the rent income net of the allocable deductions is included in taxable income. If the expenses exceed the income, a rental loss may be available, depending on how many days the house is used for

personal purposes. If the house is used personally for more than the greater of 14 days, or 10% of the rental days, there is "too much" personal use, and the loss will not be deductible. In this case, deductions can still be used to offset the rental income, but not to create a loss. Any excess deductions are carried forward and may be usable in future years. If this limitation applies, the deductions must be allocated against the rental income in the following order: first interest and taxes, then operating costs, and lastly depreciation.

If the personal use test is met (i.e., the property is not used personally more than the greater of the figures listed above), the expenses still must be allocated between the personal and rental portions. In this case, however, if the rental deductions exceed rental income, the loss can be claimed. (The loss is "passive," however, and may be limited under the passive loss rules.)

This article is intended to present the basic tax implications of renting out a vacation home. Each taxpayer should review his or her particular facts and circumstances in order to identify any individual tax implications and planning opportunities. Please feel free to contact your Meisel, Tuteur and Lewis professional to discuss this matter further. ■

Trenton Extends Filing Deadlines (Again)

Good news for all you procrastinators. State officials have moved the Homestead (FAIR) rebate filing date from August 15 to October 31. This new deadline also applies to the Senior Freeze Property Tax Reimbursement Program. Under the Senior Freeze program, the state reimburses elderly and disabled homeowners the difference between the amount they paid in local property taxes

in the year they became eligible for the program and the amount they paid in the reimbursement year.

Non-senior, non-disabled homeowners who file by the original August 15 deadline can expect to receive their rebate checks in early October. All others will be mailed as soon as possible.

For information on the rebate program, call 888-238-1233. Eligible homeowners who have not received FAIR applications or wish to check the status of their rebates may call 877-658-2972 or access applications at

www.state.nj.us/treasury/taxation. ■

Securing Your Wireless Network is No Longer Optional

David Kerner

Having a wireless network—both at home and at work—has become as common as having internet access. It is easy to set up, inexpensive to maintain, and provides many conveniences. More and more public locations, ranging from coffee shops and waiting rooms to public parks, are offering wireless access.

Unfortunately, this convenience is often left unsecured, leaving your network open to intruders. They can use your internet bandwidth to surf the internet, distribute phishing schemes, and even gain access to your personal and corporate data. Rest assured, however, that there are a few easy steps you can take to secure your network and protect yourself from predators. Note that these recommendations apply as much for one wireless computer in your home as for a network of computers in your office.

Your first step should be to secure your wireless router or access point administration interface. Most devices come with an easy to identify user name and password or no password at all. Changing this password will keep your router settings safe. If you do somehow lose access to the device you can always reset it back to the factory default settings; bear in mind, however, that this will erase any configuration changes you previously made.

Second, be aware that wireless routers are constantly broadcasting their name over the air. This name is referred to as a SSID, or Service Set Identifier, and should be

changed. An even better solution is to select the option to not broadcast your SSID at all, in effect making your router invisible to all but the most experienced hackers. Once this setting is changed in your router, you must complete the process by also storing the router's new name in all connecting computers or Wi-Fi devices.

Perhaps the most important security measure you can take is to enable encryption on your device. Most devices offer two types of encryption: WEP and WPA. WEP, or Wired Equivalency Privacy encryption, is the old standard, with some well-known weaknesses that make it easy for an experienced hacker to infiltrate. WPA, or Wi-Fi Protected Access, offers a much higher level of protection and should always be used instead of WEP if the option is available.

Another security measure to note is that every piece of networking hardware has a unique ID number called a MAC address that will look something like this: 00-08-a1-00-9f-32. Many of the newer routers offer the ability to use MAC filtering, allowing you to specify which devices can access the router and denying all others.

Most routers have the capability of remote administration, but unless absolutely necessary, we recommend disabling this functionality. It provides a back door into your router and your data and should only be considered if the device allows you to specify which IP addresses can access it.

Securing your wireless network should be completed the moment your network is established. If you have a network in place that is not secured with several or all of these measures, we recommend making it a top priority. If you have any questions about wireless network security, please do not hesitate to call me anytime. ■

Tips for Getting the Most out of Your Commercial Lease Transaction

Thomas J. Stickle, CPA

Searching for new commercial space and renegotiating long-term renewals can be stressful. However, there are two facts to remember that can ease this process: first, *you* are the buyer, and second, lease terms *are* negotiable.

With regard to any commercial lease, it is important to have both your

accountant and your attorney review the lease terms prior to signing. Together, they will ensure that all tax matters have been investigated and resolved to your advantage and that your legal rights are protected.

Below are some tips on specific issues that should be reviewed and negotiated before signing a new lease:

- Discuss all necessary improvements, and settle the issue of how much the landlord will pay for any type of tenant “fit-up”, as well as any potential future space improvements;
- Clearly outline who is responsible for the payment of common area

expenses and real estate taxes;

- If you are responsible for payment of common area expenses, make sure that the formula used by the landlord is correct and that it can be re-negotiated when entering into new option periods;
- Ensure that there is a maximum annual cap if your lease is subject to annual increases based on the local consumer price index.

In addition, if “fit-up” work is required prior to taking the space, it is important to ensure that you are protected if there are delays in the

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An Inside Look

Employee News:

Congratulations to **Scott Chupak** and wife Rana, on the birth of their first child, Alexandra Marie, born June 18, 2006 (7 lbs. 7 oz., 18 1/2 inches long).

Thomas Colangelo, a graduate of Temple University and a resident of Brick, has joined the firm as a Staff Accountant.

Nancy Ameo has joined the Firm as Receptionist.

In The News:

Brad Maneely was published in the Biz Brain column of *The Star-Ledger*.

Michael S. Lewis was profiled in *Vermont Quarterly* for the second time.

Individual Achievements:

Congratulations to **Anthony Pentz** on earning a Master of Science (MS) in Taxation degree from Seton Hall University.

Congratulations to **Christine Maggi** for her promotion to Senior Accountant.

William Schwarz, CPA, MST is one of the founding members of the recently formed *BNI Power Hour* in Short Hills. ■

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The Importance of Proper Entity Selection in Real Estate

These include the following:

- The prorata share of the company's debt is not included in the calculation of an S-Corporation shareholder's basis. In contrast, a member of an LLC is credited with his or her share of the debts in calculating their basis. In effect, this allows LLC's to refinance appreciated property and make non-taxable distributions that an S-Corporation may not be able to make.
- If you die owning shares of stock of a corporation that owns real estate, there is no step-up in basis available for the real estate. The shares of stock will be passed on at

their fair market value, but the real estate held by the corporation will not. If you own real estate individually or through an LLC, your family can inherit the real estate at its fair market value after your death. Family members can then sell the property, incurring only a minimal capital gain. This step-up in basis is also available when there are other changes in the ownership of an LLC, such as the admittance of a new member.

The above are only a few of the issues that need to be considered when choosing the appropriate structure for holding your real estate investment. Although the choice of a limited liability company is best in most instances, actual circumstances can cloud the decision. The tax professionals at Meisel, Tuteur, & Lewis are trained to discuss the options most suited to your individual situation. ■

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Tips for Getting the Most out of Your Commercial Lease Transaction

construction process. You should not be required to make rent payments until the space is in the condition to which you and the landlord originally agreed. Finally, the lease should clearly state who is entitled to the ownership of all furniture and fixtures residing in the leased space upon the conclusion of the lease term.

This is a short list of issues to look out for. There are many others, both simple and complex, that need to be considered when entering into a commercial lease transaction. If you have any questions relating to this particular area, the professionals at Meisel Tuteur & Lewis would be glad to assist you. ■

Florida Intangible Tax Repealed Effective January 1, 2007

Florida Governor Jeb Bush has signed into law a measure repealing the annual intangible personal property tax, effective January 1, 2007. All annual intangible personal property taxes imposed for calendar year 2006 and prior calendar years will remain in full force and effect for the year in which the tax was due. The 2006 filing of the Intangible Personal Property Tax was due by June 30, 2006, unless an extension was requested. ■

Voluntary Benefits: A Win-Win for You and Your Employees

Diane Goldman



If you watch TV, you are probably familiar with the Aflac duck. But what is Aflac, you might ask? Aflac is the largest and most recognized name in the voluntary benefits arena, also referred to as worksite benefits. These benefits are sponsored by the employer but paid for by employees through payroll deductions. Employer sponsorship provides individuals with access to programs otherwise unavailable to them and entitlement to rates they could not obtain on their own. The programs are owned by the employee, portable should they leave, and independent of other insurance policies owned, meaning payments are received regardless of other entitlements. Employers have always known that benefit programs are a way to attract and retain employees; and now voluntary benefits can enhance your offerings at no additional cost to the company.

Three basic reasons account for the rapid growth of voluntary benefit programs: the increasing cost of medical insurance, the increasing rate of cancer and other serious illness, and the recognition by family members that they are ill prepared for the financial risks of an unexpected illness or accident. The increasing cost of insurance is forcing business owners to write policies with higher deductibles. At the same time, more and more doctors are choosing not to participate in insurance company networks. The result: employees are footing much more of the bill with increased employee contributions and more out of pocket expense. In addition, a recent Harvard study confirmed that the average family is financially unprepared, even with basic medical insurance in place. The study concluded that people do not plan for the loss of income from missed work and the unexpected costs of serious illness or injury. In fact, 50% of all the bankruptcies in this country are a result of serious illness or accident. The Aflac programs work to fill in the gaps where traditional major medical and other programs fall short.

Available voluntary benefit programs include short term disability; hospitalization; and cancer, accident, dental, and long term care. As stated above, these programs are independent of all other insurance benefits the individual may receive, whether provided through the company, the state, or personally. Payments are based on a preset schedule and made directly to the employee and his or her family. Premiums are paid for through pre-tax payroll deductions, resulting in a win-win situation: the employee gets the pre-tax benefit and the employer gets the benefit of lower payroll taxes.

Voluntary benefits are an excellent way to enhance your company's current benefit offerings with no additional cost to the company. If you would like to discuss how these programs can work for your company, feel free to contact a Meisel, Tuteur & Lewis professional at 973-228-4600. ■

Diane is a fully licensed insurance broker at New Agency Partners, LLC in Parsippany, NJ and a trusted friend of Meisel, Tuteur & Lewis, P.C..