February 2015 Newsletter

News From Silver Bridge CPAs

2014 Business Tax Returns:

Tax season has arrived! If you haven't yet brought in the information for your business's tax return, please get in touch with us so that we can get things started. We'll be happy to set you up with a list of the information we'll need and an appointment if you'd like one.

This year, corporate returns are due **March 16th** and partnerships are due **April 15th.**

2014 Individual Tax Returns:

It's time to start bringing in the information for your individual tax return. Tax returns are due **April 15th**. As soon as your information is ready, please drop it off so we can get started, or **contact us** if you need to schedule an appointment.

Tax Season Office Hours:

Our office hours during tax season are **Monday** through **Friday** from **8:00 am to 5:00 pm.**

TAX TIPS & TRICKS

What do I need to bring to my tax appointment?

Got a tax appointment coming up? Here's what you'll need:

1. Your organizer.

Returning clients: use your organizer to remind you what information was on your return last year so you have a list of what to bring this year. New clients: use your organizer to summarize your tax return data and identify income and deduction items you may have missed. **At a minimum, please review and complete the 4-page questionnaire**.

2. Prior year tax returns (New clients only)

If we did not prepare your returns in 2012 and 2013, please bring us a copy. On many returns some information carries over to future years, and seeing what was on your prior year return can also help us identify tax items you may be missing.

3. Form(s) W-2

These show employee wages for 2014.

4. Form(s) 1099

These show interest, dividends, retirement income, and independent contractor income.

5. Schedule(s) K-1

These show income and deductions from partnerships, S corporations, or trusts.

6. Form(s) 1098

These forms report various types of tax deductions.

7. Brokerage statements

These identify stock, bond or other investment transactions, and usually list cost basis of securities sold. If additional cost basis information is needed, please include that as well.

8. Closing statements for real estate transactions

These almost always include items that affect your tax return.

9. Any other supporting documents (schedules, checkbooks, etc.)

Please bring whatever is needed to summarize information for your business and/or rental activities if you don't have it written on your organizer.

10. Tax notices, if applicable

If your prior year return was adjusted or the IRS or the state contacted you for any reason, please make sure we know about it. We want to make sure all carryover information is correct going into this year's return.

Another great resource for preparing for your tax appointment is our **new client page**.

DAVE RAMSEY ELP

Dave Ramsey Endorsed Local Provider

Did you know that Silver Bridge CPAs is a part of Dave Ramsey's tax and accounting team? We are proud to be Dave's **exclusive** endorsed local provider for tax and accounting services in the Treasure Valley. You can't buy Dave's endorsement. You have to earn it. As members of Dave's team, we are held to a high standard of excellence in what we do. We take our responsibility to represent Dave very seriously, so please let us know how we're doing.

And if you find yourself in need of advice, **contact us** to discuss how Dave would handle your financial situation!

Want to find out why Dave recommends using a CPA? Check out his article, "**Tax Software vs Tax Pro: Which is Right For You?**"**.**

TAX NEWS

Obama's 2015 Tax Proposals Offer Help for Middle Class Families

President Obama and the White House unveiled Obama’s tax program for 2015, with proposals designed to help middle class families. The proposals include providing a new $500 credit for two-earner families; enhancing the earned income tax credit (EITC), the child credit, and the dependent care credit; reforming and consolidating the multiple tax breaks for education; and expanding retirement savings vehicles. The tax cuts are estimated to cost $175 billion over 10 years.

The President would pay for the proposals by increasing increased taxes on capital gains and dividends; closing the “trust fund loophole,” and imposing a new tax on borrowing by the largest banks and financial firms, those with assets over $50 billion. The White House indicated that these “loophole” closers would raise $320 billion over 10 years.

Relief for Families

Obama proposed to triple the maximum child and dependent care credit for qualifying families with children under five. Families could claim a 50-percent credit for up to $6,000 of expenses per child under age five. Existing enhancements to the EITC would be made permanent, and the credit would be expanded to taxpayers without children and to noncustodial parents.

For education credit, the President proposed to make the American Opportunity Tax Credit (AOTC) permanent and to increase the refundable portion to $1,500. A partial credit would be available to part-time students, and all eligible students could claim the AOTC for five years. However, earnings on contributions to Code Sec. 529 education plans would no longer be tax-exempt.

The President proposed to provide additional tax relief to small businesses that offer a new retirement plan, such as a 401(k) plan, or that start automatically enrolling workers in their plan. Tax credits would also be available to offset administrative costs. Employers who do not offer a retirement would be required to offer an automatic IRA savings vehicle.

Taxes on the Wealthy

The President's proposals would increase the top tax rate on capital gains and dividends from 23.8 percent to 28 percent. An estate tax proposal would eliminate stepped-up basis at death (labeled the trust fund loophole) for inherited assets to the extent of capital gains of $200,000 or more per couple, with an additional $500,000 exemption for personal residences. The proposals would impose a 7 basis point fee on the liabilities on the roughly 100 largest financial firms. (Presumably, the 3.8 percent net investment income tax would no longer apply to capital gains and dividends subject to the higher tax rates.)

How Do I? Gather the right paperwork for a charitable deduction

Taxpayers must generally provide documentation to support (or to "substantiate") a claim for any contributions made to charity that they are planning to deduct from their income. Assuming that the contribution was made to a qualified organization, that the taxpayer has received either no benefit from the contribution or a benefit that was less than the value of the contribution, and that the taxpayer otherwise met the requirements for a qualified contribution, then taxpayers should worry next whether they have the proper records to prove their claim.

Cash donations

The taxpayer must provide records to prove a donation of any amount of cash (including payments by cash, check, electronic funds transfer or debit, and credit card). Acceptable records for cash donations of less than $250 generally include:

- An account statement or canceled check;
- A written letter, e-mail or other properly issued receipt from the qualified organization bearing the name of the organization and the date and amount of the contribution; and/or
- A pay stub, Form W–2, or other payroll document showing the amount of a contribution made from payroll.

Caution: A taxpayer cannot substantiate deductions through written records it has prepared on its own behalf, such as a checkbook or personal notes.

Cash donations of more than $250. If a taxpayer donated $250 or more in cash at any one time, the taxpayer must provide a contemporaneous written acknowledgment of the donation from the qualified organization. For each donation of $250 or more, the taxpayer must obtain a separate written acknowledgment. Furthermore, this written acknowledgement must:

- State the amount of the contribution; and
- State whether the qualified organization provided the taxpayer with any goods or services in exchange for the donation, and if so estimate their value; and
- Be received by the taxpayer before the earlier of (1) the return's filing date or (2) the due date of the return, plus any extensions.

Note: The written acknowledgment ideally would also show the date of the contribution. If it does not, the taxpayer must also provide a bank record that indicates the date.

The acknowledgment must contain a statement of whether or not a taxpayer received any goods or services as a result of the donation, even if no goods or services were received. Even if the donation was for tithes to a religious organization, such as a church, synagogue, or mosque, the acknowledgment should state that the only goods and services received were of intangible religious value. The Tax Court has upheld the disallowance of charitable contribution deductions where the written acknowledgment omitted such a statement regarding goods or services provided.

Noncash contributions

As with cash contributions, the requirements for substantiating noncash contributions increase with the value of the contribution. For example, to substantiate noncash contributions of less than $250, taxpayers must show a receipt or other written communication from the charitable organizations.

To substantiate a noncash contribution between $250 and $500, the taxpayer must obtain a written acknowledgment of the contribution from the qualified organization prior to the earlier of the filing date or due date of its return. The acknowledgment must also describe the type and value of the goods and services, if any, provided to the taxpayer as a result of the donation.

To substantiate noncash contributions totaling between $500 and $5,000 or donations of publically traded securities, a taxpayer must complete Section A of Form 8283, Noncash Charitable Contributions. To substantiate noncash contributions of $5,000 or more (for example, donations of art, jewelry, vehicles, qualified conservation contributions, or intellectual property) the taxpayer must complete Section B of Form 8283. Generally, this would also require the taxpayer to obtain a qualified appraisal of the property's fair market value.

A word about valuation. A charity is not obligated to provide a value to any noncash contribution; its written receipt only needs to describe the item(s) and note the date of the contribution. The taxpayer, however, is not relieved from making a good-faith estimate of value, which of course the IRS may dispute on any audit. "Thrift-shop" value is often used to value donations of clothing and household goods.

Caution: Last year the Treasury Inspector General for Tax Administration (TIGTA) issued a report finding that the IRS was not accurately monitoring the reporting of noncash contributions requiring completion of Form 8283. The IRS responded that it agreed that it needed to initiate more correspondence audits with taxpayers claiming noncash contributions without the necessary Form 8283 and appraisal.

Vehicles. A taxpayer who donates a motor vehicle, boat, or airplane to charity must deduct either the gross proceeds from the qualified organization's sale of the vehicle or, if the vehicle is used within the charity's mission, the fair market value of the vehicle on the date of the contribution, whichever is smaller. The taxpayer must also obtain and attach Form 1098-C, Contributions of Motor Vehicles, Boats, and Airplanes, to its return in addition to Form 8283.

The requirements for substantiating charitable contributions can be complicated. Please contact our office with questions.

Client FAQ: Common sense and taxes

Q. Each year when it comes time to prepare my return, I realize how little I think about my tax situation during the rest of the year. I seem to lack any sort of common sense when it comes to dealing with my taxes. Do you have any general advice for people like me trying to "do the right thing" in any tax situation that may arise during the year?

A. Unfortunately, you're not alone in your "seasonal" approach to considering your tax situation. Many people have a once-a-year relationship with their tax professional, which can result in the improper handling of important tax documents and sometimes-costly financial decisions. When it comes to handling your tax situation during the year, you will find that a little common sense will go a long way.

Here are some general common sense tips to handling all things tax-related pre- tax season and during the "off-season":

Don't assume all your tax paperwork is correct. Check Forms W-2s and 1099s for accuracy. Many W-2s and 1099s are prepared by data processing companies that merely process your tax information as raw data. Mistakes have been known to occur. Although your employer or financial institution should be checking these forms for accuracy, it's a good idea to double-check these forms against payroll stubs and monthly statements from the payer. If you find a discrepancy, notify your employer as soon as possible to the error corrected and reported to the appropriate taxing authorities.

Gather possible ALL relevant tax documents for your tax preparation. Don't avoid taking legitimate deductions out of fear of "raising red flags" that may cause your return to be audited. Filing a complete and accurate return is required and is your best defense against an audit.

Don't make decisions solely on potential "tax breaks". All good investment or business decisions should be able to stand on their own before tax breaks are considered. A change in the tax law can be disastrous (and costly) when you are stuck in an affected investment (can you say "abusive tax shelter"?).

Seek planning advice from a tax professional. Probably the best investment decision you can make is to seek out the services of your tax professional. In most cases, the amount you are charged for good tax advice is a fraction of the resulting tax savings.

Consult with a tax professional before responding to IRS notices. If you receive a notice from the IRS (or any taxing authority) do not automatically assume that it is accurate and mail them a check. Many notices are inaccurate or merely require additional explanation. Tax professionals have the knowledge and experience to recognize areas where additional explanation or documentation may reduce or eliminate the assessment stated on the notice.

If audited, consider your appeal rights. Although the IRS auditor may not bring it to your attention, the end of an audit is by no means the end of the road for your tax case. Appealing an audit decision can many times put your case in front of a more experienced agent who may better understand the issues and your position on them.

Taking a little time during the year to consider your tax situation and invoke a little common sense can pay off with substantial tax savings and the avoidance of unnecessary expenditures. If you need any additional assistance throughout the year, please do not hesitate to contact the office for guidance.