June 2015 Newsletter

News From Silver Bridge CPAs

TAX TIPS & TRICKS

Consider Setting Up an Idaho Medical Savings Account!

The state of Idaho has established a tax deduction for contributions made to an Idaho Medical Savings Account (MSA). These accounts have no insurance requirements or age restrictions. **Contributions to an Idaho MSA reduce your state taxable income dollar-for-dollar up to $10,000 ($20,000 for joint returns)**. Funds in an Idaho MSA can be used to pay health insurance premiums and any other medical expenses that are generally deductible for income tax purposes (defined in Section 213(d) of the Internal Revenue Code). Keep in mind that this is a deduction on your state taxes only, and not on your federal return.

Unlike some tax-advantaged plans, the balance in your Idaho MSA rolls over year to year, so if you don't need it, you can use it in the future, or even withdraw it without penalty as a source of retirement income once you reach age 59 ½. The flexibility of the Idaho MSA makes it a great option to save on state taxes and plan for your future!

Though you can take advantage of this benefit by setting up an Idaho Medical Savings Account at any local bank, we have found that not every bank is familiar with this type of account. To give our clients a good resource in setting up and maintaining Idaho MSA accounts, we have partnered with **American Health Value**, a local company that can assist you in setting up your Idaho MSA. You can contact American Health Value at 208-331-0676 or enroll online **here.**

Please feel free to contact us if you have any questions about the tax benefits of the Idaho MSA.

Bookkeeping and Payroll Services:

Do you spend too much time working on bookkeeping and payroll? Would you rather spend your time doing what you do best or growing your business? Silver Bridge CPAs can help!

We offer customized bookkeeping and payroll solutions to keep you caught up and in compliance with payroll regulations. Our bookkeeping services can help you manage your available cash and monitor your business's performance without sacrificing your valuable time!

Contact us to discuss packages and pricing options today!

QuickBooks Seminars:

Remember when you brought in your taxes and you said to yourself, "I should take a QuickBooks class this year"?

Now is the time to turn your resolution into reality! Our QuickBooks classes are one-on-one where we will use your company's QuickBooks file and only focus on things that are relevant to you. Improving your QuickBooks skills will help you gain confidence in your bookkeeping, learn tips and tricks to help you navigate more easily, provide better information about how your business is doing throughout the year and, as an added bonus, can save you money on cleanup fees during tax season!

If you want to improve or refresh your QuickBooks skills, we can help. **Take a look at our updated flyer** and **contact us** to schedule a class today!

Office Hours:

Our current office hours are **Monday** through **Thursday** from **9:00 am to 5:00 pm** and we are **closed on Friday.**

TAX NEWS

How the IRS resolves an identity theft case

The IRS has responded to criticism from the Treasury Inspector General for Tax Administration and the National Taxpayer Advocate, among others, that resolution of identity theft accounts takes too long by increasing its measures to flag suspicious tax returns, prevent issuance of fraudulent tax refunds, and to expedite identity theft case processing. As a result, the IRS's resolution time has experienced a moderate improvement from an average of 312 days, as TIGTA reported in September 2013, to an average of 278 days as reported in March 2015. (The 278-day average was based on a statistically valid sampling of 100 cases resolved between August 1, 2011, and July 31, 2012.) The IRS has recently stated that its resolution time dropped to 120 days for cases received in filing season 2013.

Even with a wait time of 120 days, taxpayers who find themselves victims of tax refund identity theft likely find the road to resolution a frustrating and time consuming process. This article seeks to explain the various pulleys and levers at play when communicating with the IRS about an identity theft case.

Initiating an ID theft case

A taxpayer may become aware that he or she is a victim of tax-related identity theft when the IRS rejects their tax return because someone has already filed a return using the taxpayer's name and/or social security number. A taxpayer may also receive correspondence directly from the IRS that informs them, prior to filing, that someone has filed a suspicious return under their information. In other cases, a taxpayer may have had his or her identity information compromised and wishes to alert the IRS as to the possibility that he or she may be targeted by an identity thief.

For all such cases, the IRS has created Form 14039, Identity Theft Affidavit. Taxpayers who are actual or potential victims of tax-related identity theft may complete and submit the Affidavit to ensure that the IRS flags the tax account for review of any suspicious activity. Taxpayers who have been victimized are asked to provide a short explanation of the problem and how they became aware of it.

The Identity Theft Affidavit may also be submitted by taxpayers that have not yet become victims of tax-related identity theft, but who have experienced the misuse of their personal identity information to obtain credit or who have lost a purse or wallet or had one stolen, who suspect they have been targeted by a phishing or phone scam, etc. The form asks these taxpayers to briefly describe the identity theft violation, the event of concern, and to include the relevant dates.

Once the Form 14039 has been completed and submitted, the taxpayer should expect to receive a Notice CP01S from the IRS by mail. The Notice CP01S simply acknowledges that the IRS has received the taxpayer's Identity Theft Affidavit and reminds the taxpayer to continue to file all federal tax returns.

IDVerify.irs.gov

The IRS has implemented a pre-screening procedure for suspicious tax returns. Rather than halt the refund process entirely, which can prevent a refund claimed on a legitimately filed return, the IRS has provided taxpayers with the opportunity to verify their identity.

Now when the IRS receives a suspicious return, it will send a Letter 5071C or Notice CP01B to the taxpayer requesting him or her to either visit idverify.irs.gov or call the toll-free number listed on the header of the letter (1-800-830-5084) within 30 days. When the taxpayer does this, the taxpayer will encounter a series of questions asking for personal information. If the taxpayer fails to respond to the verification request or responds and answers a question incorrectly the IRS will flag the return as fraudulent and follow the prescribed procedures for resolving identity theft cases.

Resolving the case

After a tax return has been flagged with the special identity theft processing code, the IRS will assign the case to a tax assistor. TIGTA reported that the IRS assigns each case priority based first on its age and then by case type—for example, with cases nearing the statute of limitations placed first, followed by cases claiming disaster relief, and then identity theft cases. However, TIGTA has reported that cases are frequently reassigned to multiple tax assistors, and there are often long lag times where no work is accomplished toward resolution. National Taxpayer Advocate Nina Olson also noted in her recent "Identity Theft Case Review Report" on a statistical analysis of 409 identity theft cases closed in June 2014 that a significant number of cases experience a period of inactivity averaging 78 days.

After resolution

The IRS has also created the Identity Protection Personal Identification Number (IP PIN) project, which is meant to prevent taxpayers from being victimized by identity thieves a second time after the IRS has resolved their cases and closed them. The IP PIN is a unique six-digit code that taxpayers must entered on their tax return instead

The IRS assigns an IP PIN to a taxpayer by sending him or her a Notice CP01A. Generally this Notice is issued in December in preparation for the upcoming filing season. The taxpayer then enters it into the appropriate box of his or her federal tax return (i.e. Forms 1040, 1040A, 1040EZ or 1040 PR/SS). On paper returns, this box is located on the second page, near the signature line. When e-filing, the tax software or tax return preparer will indicate where the taxpayer should enter the IP PIN, social security number or taxpayer identification number (TIN) at time they file their tax return. The IP PIN is only good for one tax year.

Taxpayers who have been assigned an IP PIN, but who have lost or misplaced it cannot electronically file their tax returns until they have located it. Previously such taxpayers had no way to retrieve their IP PIN and had to file on paper. Beginning on January 14, 2015, however, taxpayers who had lost their IP PINs were able to retrieve them by accessing their online accounts and providing the IRS with specific personal information and answer a series of questions to verify identity.

Latest breach

The IRS announced on May 26th that 100,000 taxpayers became victims of a new identity theft scheme discovered in mid-May 2015. Identity theft criminals used stolen personal identification information to access the IRS's online "Get Transcript" application and illegally download these taxpayers' tax transcripts. The IRS is concerned that the criminals intend to use taxpayers' past-year return information to file false tax returns claiming tax items and refunds that look legitimate and that do not trigger the IRS's filters for finding suspicious returns.

Within this latest breach of security, identity thieves had attempted to download a total of 200,000 transcripts, but had only been successful half of the time, according to an announcement by IRS Commissioner John Koskinen. Because the IRS has yet to see how many taxpayers were actually victimized, the IRS may not provide IP PINs to all of these 200,000 taxpayers. However, the 100,000 taxpayers whose tax transcripts were downloaded will receive free credit monitoring services at the IRS's expense, Koskinen stated.

FAQ: What is the saver's credit?

Under Code Sec. 25B, a low-income taxpayer can claim a tax credit for a portion of the amounts contributed to an individual retirement account, 401(k) plan, or other retirement plan. A credit is allowed for up to $2,000 of contributions to qualified retirement savings plans. The maximum credit is $1,000 for individuals and $2,000 for married couples. A taxpayer's credit amount is based on his or her filing status, adjusted gross income, tax liability and amount contributed to qualifying retirement programs. However, the percentage of contributions for which the credit is allowed decreases depending on the individual's adjusted gross income.

The credit is also reduced for any distributions from qualified retirement plans that the taxpayer, or the taxpayer's spouse if they file a joint return, has received during the tax year, the previous two tax years, or the period of the following year before the due date for the return on which the return is filed, including extensions. A taxpayer can claim the credit in addition to any other deduction or exclusion that would apply to the contribution. Contributions for which the credit is claimed are treated as after-tax contributions and can be included in the taxpayer's investment in the contract, thus reducing the amount of income included in distributions from the retirement plan.

Eligible Individuals

The saver's credit is available for any individual, other than a full-time student, who is age 18 or over at the close of the tax year, provided the individual is not claimed as a dependent for the same tax year. The credit is not available for single taxpayers or married taxpayers filing separately with adjusted gross income (AGI) more than $30,000 for 2014, and $30,500 for 2015; heads of households with AGI more than $45,000 for 2014, $45,750 for 2015; or married taxpayers filing jointly with AGI more than $60,000 for 2014, $61,000 for 2015.

The AGI limits are adjusted annually for inflation. The AGI amounts for single taxpayers are one-half the indexed amounts for married taxpayers filing a joint return, and the limits for heads of households are three-fourths the indexed amounts for married taxpayers filing a joint return. These amounts are adjusted for inflation.

Amount of Credit

The saver's credit is equal to a percentage, ranging from 50 percent to 0, depending on adjusted gross income (AGI), of the individual's qualified retirement savings contributions for the tax year, up to a maximum amount of contributions of $2,000. For married taxpayers filing jointly, contributions up to $2,000 a year for each spouse can give rise to the saver's credit.

Claiming the Credit

Taxpayers claim the saver's credit on Form 8880, Credit for Qualified Retirement Savings Contributions, and attach the form to their Form 1040 or 1040A. The instructions for the form indicate how to calculate the credit. The saver's credit is a non-refundable personal credit. Thus, the amount of the credit is limited by the taxpayer's tax liability. Taxpayers can also take a projected saver's credit into account in figuring the allowable number of withholding allowances claimed on Form W-4, Employee's Withholding Allowance Certificate.