March 2015 Newsletter

News From Silver Bridge CPAs

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!

2014 Individual Tax Returns:

The tax deadline will be here before you know it! Individual tax returns are due April 15th. If we are missing information to complete your return, please contact us so that we can finalize your return in a timely manner. If you haven't brought in your tax information yet, 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

Keeping good records for tax season and beyond – some guidelines

Good recordkeeping is essential for individuals and businesses before, during, and after the tax filing season.

First, the law actually requires taxpayers to retain certain records for a specified number of years, for example tax returns or employment tax records (for employers).

Second, good record is essential for taxpayers while preparing their tax returns. The Tax Code frequently requires taxpayers to substantiate their income and claims for deductions and credits by providing records of various profits, expenses and transactions.

Third, if a taxpayer is ever audited by the IRS, good recordkeeping can facilitate what could be along and invasive process, and it can often mean the difference between a no change and a hefty adjustment. Finally, business taxpayers should maintain good records that will enable them to track the trajectory of their success over the years.

Here you will find a sample list of various types of records it would be wise to retain for tax and other purposes (not an exhaustive list; see this office for further customization to your particular situation):

Individuals

Filing status:

Marriage licenses or divorce decrees – Among other things, such records are important for determining filing status.

Determining/Substantiating income:

State and federal income tax returns – Tax records should be retained for at least three years, the length of the statute of limitations for audits and amending returns. However, in cases where the IRS determines a substantial understatement of tax or fraud, the statute of limitations is longer or can remain open indefinitely.

Paystubs, Forms W-2 and 1099, Pension Statements, Social Security Statements – These statements are essential for taxpayers determining their earned income on their tax returns. Taxpayers should also cross reference their wage and income reports with their final pay stubs to verify that their employer has reported the correct amount of income to the IRS.

Tip diary or other daily tip record – Taxpayers that receive some of their income from tips should keep a daily record of their tip income. Under the best circumstances, taxpayers would have already accurately reported their tip income to their employers, who would then report that amount to the IRS. However, mistakes can occur, and good recordkeeping can eliminate confusion when tax season arrives.

Military records – Some members of the military are exempt from state and/or federal tax; combat pay is exempt from taxation, as are veteran's benefits. (In many cases, a record of military service is necessary to obtain veteran's benefits in the first place.)

Copies of real estate purchase documents – Up to $500,000 of gain from the sale of a personal residence may be excludable from income (generally up to $250,000 if you are single). But if you own a home that sold for an amount that produces a greater amount of gain, or if you own real estate that is not used as your personal residence, you will need these records to prove your tax basis in your home; the greater your basis, the lower the amount of gain that must be recognized.

Individual Retirement Account (IRA) records – Funds contributed to Roth IRAs and traditional IRAs and the earnings thereon receive different tax treatments upon distribution, depending in part on when the distribution was made, what amount of the contributions were tax deferred when made, and other factors that make good recordkeeping desirable.

Investment purchase confirmation records – Long-term capital gains receive more favorable tax treatment than short-term capital gains. In addition, basis (generally the cost of certain investments when purchased) can be subtracted from gain from any sale. For these reasons, taxpayers should keep records of their investment purchase confirmations.

Substantiating deductions:

Acknowledgments of charitable donations – Cash contributions to charity cannot be deducted without a bank record, receipt, or other means. Charitable contributions of $250 or more must be substantiated by a contemporaneous written acknowledgment from the qualified organization that also meets the IRS requirements.

Cash payments of alimony – Payments of alimony may be deductible from the gross income of the paying spouse . . . if the spouse can substantiate the payments.

Medical records – Disabled taxpayers under the age of 65 should keep a written statement from a qualified physician certifying they were totally disabled on the date of retirement.

Records of medical expenses – Certain unreimbursed medical expenses in excess of 10 percent of adjusted gross income may be deductible.

Current health insurance policy – The new health care law requires most individuals to obtain minimum essential health coverage. If your employer has not provided you with records of coverage because you have your own policy, or for some other reason, you should be able to substantiate the amount of your coverage.

Mortgage statements and mortgage insurance – Mortgage interest, premiums paid toward mortgage insurance, and real estate taxes are generally deductible for taxpayers who itemize rather than claim the standard deduction.

Receipts for any improvements to real estate – Part or all of the expense of certain energy efficient real estate improvements can qualify taxpayers for one or more tax credits.

Keeping so many records can be tedious, but come tax season it can result in large tax savings. And in the case of an audit, evidence of good recordkeeping can get you off to a good start with the IRS examiner handling the case, can save time, and can also save money. For more information on recordkeeping for individuals, please contact our offices.

Businesses

Taxpayers are required by law to keep permanent books of account or records that sufficiently substantiate the amount of gross income, deductions, credits and other amounts reported and claimed on any their tax returns and information returns.

Although, neither the Tax Code nor its regulations specify exactly what kinds of records satisfy the record-keeping requirements, here are a few suggestions:

State and federal income tax returns – These and any supporting documents should be kept for at least the period of limitations for each return. As with individual taxpayers, the limitations period for business tax returns may be extended in the event of a substantial understatement or fraud.

Employment taxes – The Tax Code requires employers to keep all records of employment taxes for at least four years after filing for the 4th quarter for the year. Generally these records would include wage payments and other payroll-related records, the amount of employment taxes withheld, reported tip income, identification information for employees and other payees; employees' dates of employment; income tax withholding allowance certificates (Forms W-4, for example), fringe benefit payments, and more.

Business income – These would go toward substantiating income, and could include cash register tapes, bank deposit slips, a cash receipts journal, annual financial statements, Forms 1099, and more.

Inventory costs – Businesses should keep records of inventory purchases. For example, if an electronics company purchases a certain number of widgets for resale or a manufacturer purchases a certain number of ball bearings for use in the production of industrial equipment that it manufactures and sells. The costs of these goods, parts, or other materials can be deducted from sales income to significantly reduce tax liability.

Business expenses – Ordinary and necessary expenses for carrying on business, such as the cost of rental office space, are also generally deductable from business income. Such expenses can be substantiated through bank statements, canceled checks, credit card receipts or other such records. The cost of making certain improvements to a business, such as through buying equipment or renovating property, can also be deductible.

Electronic back-up

Paper records can take up a great deal of storage space, and they are also vulnerable to destruction in fires, floods, earthquakes, or other natural phenomena. Because records are required to substantiate most income, deductions, property values and more—even when they no longer exist—taxpayers (and especially business taxpayers) should digitize their records on an electronic storage system and keep a back-up copy in a secure location.

Business taxation can be extremely complicated, and the requirements for recordkeeping vary greatly depending on the size of the business, the form of organization chosen, and the type of industry in which the business operates. For more details on your specific situation, please call our offices.

TAX NEWS

IRS provides repair regulations relief for small businesses

In Rev. Proc. 2015-20, the IRS substantially simplified the requirements for small businesses to adopt the tangible property regulations (the "repair regulations") for 2014. The relief allows small businesses to change their accounting methods, to comply with the regulations, without having to apply Code Sec. 481 and without having to file Form 3115, Application for Change in Accounting Method.

The repair regulations are broad and comprehensive, applying to any business that uses tangible property. The regulations totally redo the rules for deducting and capitalizing expenses associated with fixed assets. IRS adopted final regulations in September 2013, effective for tax years beginning on or after January 1, 2014. Taxpayers also have the option of applying the final regulations in 2012 and/or 2013.

Change of accounting method

Taxpayers ordinarily have to file Form 3115 to request IRS consent to change a method of accounting. The IRS provided automatic consent for taxpayers to change their accounting methods to comply with the repair regulations, but this did not relieve taxpayers of the requirement to file Form 3115. Furthermore, taxpayers changing their accounting method must apply Code Sec. 481(a), which requires them to calculate an adjustment to their accounting treatment of the same items for prior years, as if the new method were used in the prior years. Code Sec. 481 is designed to prevent any duplication of deductions or omission of income upon a change in accounting method.

Small businesses in particular had complained to the IRS about the burden of implementing the regulations with a full Code Sec. 481 adjustment. Taxpayers would be required to go back in time (as far back as their books allow) and redo their analysis of prior year tangible property costs.

Relief

The IRS has now responded by providing relief from the requirements for changing an accounting method. Small business taxpayers can make the change without filing Form 3115 and without having to make a 481 adjustment. Instead, taxpayers can make the change on a "cutoff" basis, by taking into account only amounts paid or incurred, and dispositions of property, in their 2014 tax year. In effect, small business taxpayers can make the change prospectively.

The relief applies to a taxpayer that has one or more separate and distinct trade(s) or business(es) with either total assets under $10 million at the start of the 2014 tax year, or that has average annual gross receipts of $10 million or less for the prior three years.

Claiming relief

Because the IRS provided automatic consent, taxpayers making the change for 2014 would not have to file Form 3115 until the deadline for their 2014 income tax return, either March 15 or, with an extension, September 15. So taxpayers (and their tax representatives) are right in the middle of the process to comply with the regulations for 2014. The timing of the IRS's relief, in

February 2015, is opportune, and gives small businesses plenty of time to comply with the regulations for 2014.

The relief is elective. Small businesses can follow normal change of accounting procedures, or can use the relief provided in Rev. Proc. 2015-20. There are trade-offs to claiming the relief. For some taxpayers, there may be tax savings from applying Code Sec. 481 to prior years, regardless of the burden involved to make the calculations. Furthermore, taxpayers that do not file Form 3115 will not get audit protection for tax years before 2014.

FAQ: What is new Form 1095-A, Health Insurance Marketplace Statement

Form 1095-A, Health Insurance Marketplace Statement, is a new information return. The IRS requires the Health Insurance Marketplace to report certain information about every individual who receives health insurance coverage through the Marketplace to the agency and also to the enrollee. Form 1095-A reports information about the individual(s) covered by Marketplace coverage, the starting and ending dates of coverage, and the insurer that provided coverage. Form 1095-A also reports the cost of coverage, the plan's total monthly payment, any advance payment, and more.

Copies to IRS and enrollees

IRS rules require the Marketplace to file Form 1095-A with the agency and provide a copy to individuals on or before January 31, 2015, for coverage in 2014. If an individual did not receive a Form 1095-A in February 2015, he or she should contact the Marketplace and not the IRS. The IRS has cautioned that it is unable to answer questions about the information on Form 1095-A or about missing or lost forms because these forms come from the Marketplace.

Form 1040

Health insurance obtained through the Marketplace satisfies the requirement under the Patient Protection and Affordable Care Act (PPACA) that all individuals carry minimum essential health coverage, unless exempt. On 2014 Form 1040, U.S. Individual Income Tax Return, the IRS has added a new line on which individuals will report if they had minimum essential coverage for 2014 (and on Forms 1040-EZ and 1040A). Individuals who had coverage through the Marketplace for 2014 will check this box on their Form 1040.

Code Sec. 36B credit

According to the IRS, nearly nine out of 10 individuals who obtained health insurance coverage through the Marketplace in 2014 qualified for the Code Sec. 36B premium assistance tax credit. This credit helps to offset the cost of health insurance. Form 1095-A includes information about the credit that individuals will need when they file their returns, such as the second lowest cost Silver Plan.

All individuals who claim the Code Sec. 36B credit must file a return. The IRS has developed a special form (Form 8962, Premium Tax Credit) for individuals to file with their return.

Many enrollees in Marketplace coverage were likely eligible for advance payments of the credit to their insurer. In this case, these individuals must reconcile the amount of the advance payment with the amount of the actual credit when they file their 2014 returns. Keep in mind that that changes in income, family size or other life events may result in the amount of the actual credit being different from the amount estimated by the Marketplace at the time coverage was obtained. If an individual's actual allowable credit is less than the amount of advance credit payments, the difference, subject to certain caps, will be subtracted from any refund or added to any balance due. If the actual allowable credit is more than the advance credit payments, the difference will be added to any refund or subtracted from any balance due.

Errors

In late February, the U.S. Department of Health and Human Services (HHS) announced that some 800,000 Forms 1095-As reporting coverage for 2014 were calculated incorrectly by the Marketplace. HHS has advised enrollees that they should receive corrected Forms 1095-A in early March. If you have any questions about your Form 1095-A please contact our office.