

ROBERT ROWLAND CPA
ANNUAL TAX LETTER

TAX YEAR 2015

Welcome to the New Year and another tax filing. Hopefully, with a minimal effort on your part, we can get those returns accurately prepared and out of the way.

Password For Tax Returns Emailed: As a reminder, the password to get into the tax returns emailed to you from this office is the first four letters of your last name followed by the last five numbers of your social security number (no caps and no spaces).

On Line Scheduling of Appointments: I now have a **calendar** that coordinates within the internet. With it you can make an appointment online by going to <https://robertrowland.acuityscheduling.com/>. If you include your email address when you create that appointment then we will send you a reminder 24 hours before your appointment. This online calendar is purely for your convenience. If you prefer the old fashion way, you can still call Karen, 520-319-0077, and she will be happy to set you up with that appointment.

Express Option Instead of scheduling a meeting, you have the option to complete the tax organizer, attach the W 2's and other documents requested, include a list of questions you may have and mail, deliver, fax (520 319-0076) or email it to Robert@RowlandTax.com. For this express option my total fee will be discounted by \$15. However, the essential requirement for this express option is your completion of the tax organizer. Also, the discounted price is not available after March 15th. For those of you who prefer a meeting to go over your taxes, I will continue to do so.

Of particular concern is that the IRS continues to be working under extreme financial constraints. According to the National Society of Accountants, a House bill calls for an \$838 million cut in the IRS budget for 2016, which is \$2.8 billion less than President Obama's 2016 budget request. A Senate bill proposes a cut of \$470 million. The IRS Taxpayer Advocate found that in 2014, 35.6 percent of phone calls went unanswered by IRS customer service representatives and half of written correspondence was "not handled in a timely manner. All this and at the same time the IRS responsibilities continue to grow.

And the law gets more complex. According to the National Tax Foundation the federal tax law (statutes and federal regulations) now exceeds 10 million words. Congress, the IRS, the state legislatures, and the tax courts were all busy this year contributing to those tax laws including the following:

CHANGES FOR 2015

The maximum amount of income subject to **Social Security tax** increased to \$118,500.

For 2015 for **business use of a vehicle** the mileage rate was 57.5 cents per mile. Again I want to

stress again to support your business mileage deduction there must be a mileage log. For those with iPhones there are nifty apps which uses GPS to track your mileage and creates a good mileage log with minimal effort your part. One such app is Falcon Expenses.

Employers with 50 or more employees will be required to report **2015 health insurance data** for each full-time employee on a form 1095-C. **We will need to see that new form.**

Individuals **without health insurance coverage** may be subject to a penalty of \$325 each adult and \$162.50 for each minor child not covered or, if greater, 2% of the household taxable income calculated using the standard deduction.

Gambling losses to the extent of gambling winnings are deductible (if itemize deductions). However the losses must be substantiated and in a recent case ATM withdrawals did not substantiate gambling losses. What is allowed as substantiation is a contemporaneous daily log or by consistently using a player's card to monitor gambling activity.

In order to take any post high school **education credit** the IRS requires that the student receive Form 1098-T from the education institution.

For a **divorced couple claiming the child(ren) as dependents** can be tricky. The presumption in the tax law is that the custodial parent is entitle to the exemption. Custodial parent is defined as the one with whom the child spent the most nights during the year even if that definition differs from the divorce decree. In order for the noncustodial parent to claim the exemption the custodial parent must sign a release (Form 8332) and copy of that release must be attached to the noncustodial parent's tax return. Post 2007 court orders, decrees or separation agreements do not qualify as releases.

In late December a new tax law was enacted which now makes permanent several provisions including:

1. First year depreciation on business equipment up to \$500,000 per year (Section 179)
2. \$250 deduction for expenses incurred by an elementary or secondary school teacher.
3. Ability to deduct sales tax in lieu of state income tax.

Available for 2015 and 2016 are:

1. Exclusion from gross income discharge of principle residence debt.
2. Possible deduction of mortgage insurance premiums.
3. Above the line deduction for qualified tuition and related expenses
4. Energy tax incentives

Also first year bonus depreciation was extended at 50 percent for 2015-2017 and phased down to 40 percent in 2018 and 30 percent in 2019

If you have not contributed the maximum amount for 2015 (\$6,650 family plan, \$3,350 self only

plan) into your **HSA (health insurance account)** you have until April 15, 2016 to continue making contributions for 2015.

The IRS and tax courts are getting tougher on receipts for **noncash donations**. For example a court decision required a “description of the property in detail reasonable sufficient under the circumstances.” Also for any single donations for which the total value exceeds \$250 the receipt must indicate that you received no goods or services in consideration for the contribution.

Beginning November 2015 a **new variation of the ROTH IRA** became available called the MyRA. It is designed to encourage those who have been reluctant to put aside monies for the long run. The advantage is that the monies are only invested in US Treasury notes guaranteed by the government to never lose value. Currently the rate of earnings is a little over 2 percent. I see no great advantage to the new plan.

Beginning on Jan. 1, 2015, investors are limited to one rollover from one IRA to another in any 12-month period. A second IRA-to-IRA rollover in a single year could result in income tax becoming due on the rollover, a 10% early withdrawal penalty, and a 6% per year excess contributions tax, as long as that rollover remains in the IRA. This change does not apply to a rollover directly between the old IRA administrator and the new administrator, but rather only applies to where you get a check and walk the rollover money to the new IRA administrator.

There is an ongoing debate on whether **workers in the household** are employees or independent contractors. The classification of those workers as employees comes with the responsibility to pay social security taxes and unemployment taxes, New Department of Labor (DOL) guidance focused on six new factors, of which two have a major impact on domestic workers – **economic dependence and permanence**.

Permanence refers to the structure of the job. A household employee takes a job with the understanding that they’ll work for the family for the foreseeable future. The job goes on into perpetuity – until an unknown time in the future when she either quits on her own or the family decides to discontinue the relationship. An independent contractor, on the other hand, generally has a pre-defined task that lasts for a finite period of time.

Economic dependence is exactly what it sounds like. A worker is considered an employee if a significant portion of their income comes from a single source because they are then economically dependent on that source for their financial well-being. This holds true for most nannies, senior caregivers, personal assistants, and other household employees because they rarely have time to work for more than a few families. An independent contractor has a diversified client base – if one client falls through, they are not materially affected because they can, in theory, simply acquire another customer.

When taken in conjunction with the historical factors, most employment experts agree that the overwhelming majority of domestic workers are legally considered to be employees of the family for whom they work. (For years, taxpayers have been petitioning the IRS using Form SS-8 to get formal worker classification rulings on behalf of families. In virtually all cases, the workers were

deemed by the IRS to be an employee and not an independent contractor. The recent DOL guidance narrows the independent contractor designation even more).

The problem is that misclassification is considered tax evasion and carries significant penalties and problems. And with this strengthening of the IRS position by the DOL guidance, we would not be surprised to see more audits in this area.

A quick search of the internet found several payroll services that can give guidance and assistance in the area of payroll for household worker. They are: MyHomePay.com, Nannychex.com or GTM.com.

CHANGES FOR 2016

Individuals **without health insurance coverage** may be subject to a penalty of the greater of \$695 for each adult and \$348 for each minor child not covered or 2.5% of household taxable income calculated using the standard deduction.

For 2016 for **business use of a vehicle** the mileage rate is 54 cents per mile. Again I want to stress that to support your deduction for business mileage there must be a mileage log. There are several good mileage log apps available on your cell phone.

Have a **disable child** under age 26 (disabled as defined by Social Security Disability rules) then consider an ABLE account. Multiple donors can contribute in total up to \$14,000 per year and the funds can be used by the disabled child for basic living expenses. The advantages; earnings are not taxable, and if the account balance is under \$100,000 the account in many states (including Arizona) will not disqualify the child from federal or state assistance programs. This program will be available soon. Keep an eye out for it.

The **filing dates for regular corporations and partnerships** flipped. Where before regular corporations returns were generally due March 15th, starting with the 2016 returns the filing date is now April 15th. However for partnership (and LLC) returns the filing date is being moved up from April 15th to March 15th. The March 15th filing date for S Corporations remains the same.

Also **filing date for reporting foreign accounts** is moving from June 30th to April 15th.

Business equipment is normally depreciated over its useful life. For 2016 and thereafter, in addition to section 179 first year depreciation, any item which costs less than \$2,500 can be deducted in full in the year of the purchase.

Partnership Investments in an IRA Investment advisers have started advising clients to invest their IRAs in limited partnerships. These investments are being sold as a way to increase returns, diversify the portfolio and increase liquidity (and were high commission products). IRAs are exempt from unrelated business income tax (UBIT) on interest, dividends, royalties, rents and a few other items. The trap is that most limited partnerships operate businesses and borrow money, and most business and debt-financed income is subject to the (UBIT) on IRAs which is a flat

39.6% tax rate when received by an IRA. Even if the IRA has exempt income, the percentage attributed to debt financing may be subject to the UBIT tax at a flat 39.6% rate. If you own limited partnership interests in your IRA check with the investment adviser to see if there is unrelated business income.

Quarterly Estimate Tax Payments The most common post-filing issue the IRS has with my clients is properly accounting for quarterly estimated tax payments. Please review your quarterly estimated tax payment records carefully and verify those payments by seeing if they cleared on your bank statement.

Health Insurance Planning We now have a year's worth of experience with Obamacare and with its planning techniques. If you do not have the availability of health insurance coverage through you or your spouse's work and if your household income is below 400% of the federal poverty level (ie \$46,680 for a single person, \$62,920 for a couple, \$79,160 for a family of 3, \$111,640 for a family of 5) then you may qualify for a substantial federal subsidy of your health insurance. But to qualify the insurance must be purchased through a federal (healthcare.gov) or state sponsored exchange. To assist you in determining the amount of the subsidy see kff.org (at the bottom is a tab for Health Reform and on that page is an area called "2016 Affordable Care Act Marketplaces".) A word of warning. If it turns out your actual income for a coverage year exceeds the 400% federal poverty level, then all of the subsidy is lost. There is no gradual phaseout. Healthcare.gov has a link to "local help" to help guide you through the process.

Electronic Filing The IRS and Arizona both encourage taxpayers to file electronically. Over 128 million tax returns were filed electronically for the 2015 tax year (approximately 91% of the tax returns filed) and over 86 million refunds were directly deposited by the IRS to taxpayers' bank accounts. Our experience is that the IRS and Arizona have developed systems that work very well and we encourage electronic filing of the tax returns.

Fees and Scope of Services We will assist you in the preparation of the federal and state individual income tax returns based on the information which you provide. We will charge a reasonable fee generally based on my current fee schedule for returns and schedules. You can find that fee schedule on my website, RowlandTax.com. Extraordinary work on a return or any schedule or additional advice will be charged at an hourly rate

Fees and rates can change without notice. If you are unable to pay the fees in full when the return is completed, please make prior arrangements.

Retainer - Audit Representation My fees (to Arizona residents only) will include a one time charge of 8% of the preparation fees as a nonrefundable retainer to cover representation in the audit, if any, of your 2015 individual income tax returns by the IRS or the state of Arizona. The retainer covers those services at no additional charge not only for the audit, but also, when reasonable, appeals within the IRS or the Arizona Department of Revenue and to the US or Arizona Tax Court. This retainer does not include the defense against any criminal investigation or prosecution.

Referrals As always we greatly appreciate any past or future referrals for tax preparation and business accounting services.

Gift Tax Returns In addition to income taxes you may be required to file a gift tax return and in rare circumstances pay gift taxes. A gift tax return generally needs to be filed if you made gifts of more than \$14,000 to any one individual during the calendar year. Please let me know if this is your situation.

Estate Tax Planning If the value of your assets (including life insurance) exceeds \$5,430,000 then upon you or your spouse's death there is the possibility of an estate tax. The estate tax is up to 40% of the fair market value of assets (and life insurance on your life) at the time of your death in excess of your debts and the \$5,430,000 exemption amount. There are several estate planning techniques legally available to reduce the possible estate tax such as lifetime gifts, charitable contributions, and trusts. Let me know if you want to explore estate tax planning.

Planning for Social Security Benefits Numerous questions arise when one heads into retirement. Is it better to take Social Security benefits at age 62? Age 66? Age 70? Is it better for the spouse to collect his or her own benefits or take 50% of the other spouse's benefit? Through the magic of the internet you can now find answers. The first step is to set up access to and review one's account at the Social Security Administration. That address is <https://socialsecurity.gov/retire/estimator.html>

Then analyze your various options using an on line calculator such as:

individual.troweprice.com/public/Retail/Retirement/Social-Security-Tool

maximizemysocialsecurity.com (\$40 annual fee)

Tax Records We are often asked how long one needs to save tax records. The IRS has up to 3 years to audit your return; the state of Arizona 4 years. If one under-reports one's income by more than 25% (including the misstatement of basis in stocks sold) the IRS audit period expands to 6 years. Also consider that for non-tax reasons the statute of limitations for litigation in which to be sued for a debt is up to 6 years. Therefore, we recommend that you keep supporting receipts and documents to your returns for at least 6 years. We also recommend that you keep copies of the tax returns indefinitely. Also, any documents to substantiate carryover items such as capital loss carryovers need to be kept for 6 years after the year the carryover is used up.

However there are documents which need to be saved for more than six years. Keep the receipts which back up any items being depreciated on a return since those are remain subject to audit. Also, keep all the receipts on the cost of stocks, bonds, real estate (including improvements), or any other investments which you still own. And finally if you have a year which generates a net operating loss (NOL) and that NOL is being carried forward, keep all of the tax documents for that NOL year until 6 years after the NOL is used up.

Generally (as a backup to your records) we keep copies of your tax returns and records for six years at which time they are destroyed. Keep in mind that we keep only limited copies, if any, of

your W-2 forms, 1099 forms, or other supporting documents.

Preliminary Estimate For many of my clients I provide a preliminary estimate of their taxes at the time of our meeting. The completed returns can vary substantially from the preliminary estimate due to many factors including:

a. **Use of estimates** on complex calculations such as the amount of taxable social security, Alternate Minimum Tax (AMT), phase out rules based on income, depreciation, and business vehicle expense calculations.

b. **Additional information** provided after the preliminary estimate is made.

c. **Calculation errors** that can occur when difficult computations are made rapidly and without the benefit of a double check.

Tax Scams

“We continue to see these aggressive tax scams across the country,” IRS Commissioner John Koskinen said in a statement. “Scam artists specialize in being deceptive and fooling people. The IRS urges taxpayers to be extra cautious and think twice before answering suspicious phone calls, emails or letters.”

Scammers posing as IRS agents first targeted those they viewed as most vulnerable, such as older Americans, newly arrived immigrants and those whose first language is not English. These criminals have now expanded their net and are targeting virtually anyone.

In a new variation, scammers alter what appears on your telephone caller ID to make it seem like they are with the IRS or another agency such as the Department of Motor Vehicles. They use fake names, titles and badge numbers. They use online resources to get your name, address and other details about your life to make the call sound official. They even go as far as copying official IRS letterhead for use in email or regular mail.

Brazen scammers will even provide their victims with directions to the nearest bank or business where the victim can obtain a means of payment such as a debit card. In another new variation of these scams, con artists may then provide an actual IRS address where the victim can mail a receipt for the payment—all in an attempt to make the scheme look official.

The most common theme with these tricks seems to be fear. Scammers try to scare people into reacting immediately without taking a moment to think through what is actually happening. Scam artists often angrily threaten police arrest, deportation, license revocation or other similarly unpleasant things. They may also leave “urgent” callback requests, sometimes through “robo-calls,” via phone or email. The emails will often contain a fake IRS document with a telephone number or email address for your reply.

The IRS said it is important to remember the official IRS website is IRS.gov. Taxpayers are urged

not to be confused or misled by sites claiming to be the IRS but ending in .com, .net, .org or other designations instead of .gov. Taxpayers should never provide personal information, financial or otherwise, to suspicious websites or strangers calling out of the blue, the IRS warned.

Below are five things scammers often do that the real IRS would never do:

- Angrily demand immediate payment over the phone, nor will the agency call about taxes owed without first having mailed you a bill.
- Threaten to bring in local police or other law-enforcement groups to have you arrested for not paying.
- Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe.
- Require you to use a specific payment method for your taxes, such as a prepaid debit card.
- Ask for credit or debit card numbers over the phone.

This fraud is so pervasive anticipate that you will receive such a call this year.

If you think you are a victim of such a scam instead call the IRS at 1-800-829-1040. There the IRS worker can help you determine the balance, if any, that you owe. If you know you don't owe taxes and want to assist the government in shutting the scams down, you can report the incident to the Treasury Inspector General for Tax Administration (TIGTA) at 1-800-366-4484.

• If you've been targeted by any scam, be sure to contact the Federal Trade Commission and use their FTC Complaint Assistant at FTC.gov. Please add "IRS Telephone Scam" to the comments of your complain

Identity theft-related tax fraud have been running rampant in recent years, despite IRS efforts to control the problem. The American Institute of CPAs reported that 63 percent of CPA tax practitioners said they had one or more clients who had been victimized by identity theft during the 2015 filing season. In this case the scammer has one way or another gotten hold of your social security number. He or she then files a fake tax return using your social security number and has a refund directly deposited to their bank account. Then when you file your return, it is rejected by the IRS. For you to then establish with the IRS that yours is the correct return requires you to call the IRS Identity Protection Specialized Unit at 1-800-908-4490 and also to file with the IRS the Identity Theft Affidavit, Form 14039. I strongly recommend that you fax to the IRS (fax number 855-807-5720) the affidavit, Form 14039, anytime your social security number has been compromised. That form can be found on the IRS website, www.irs.gov. Fortunately you will not be held responsible for the money erroneously paid by the IRS to the scammer.

A third scam is that you get a call from someone claiming to be from the IRS. They tell you that the IRS has lost your return and asks you to mail them another copy. If you do so, they now have your

personal information.