Volume 8, Issue 2

NEWSLETTER NEWSLETTER NEWSLETTER

December, 2015

Strand Boyce Associates, CPAs, Inc.

Inside this issue:

It's that most wonderful time of the year. Yes, year-end tax planning time.

And of course, Congress is being a Grinch again and waiting until the last minute to decide whether or not to extend certain beloved tax deductions. The big ones are bonus depreciation, $500,000 of first year depreciation expense election (otherwise fondly known as Section 179 expense), the research credit, the tuition deduction (up to $4,000, but limited based on adjusted gross income), and the tax-free distributions from IRAs by taxpayers 70-1/2 or older if the distribution (up to $100,000) is paid to a qualified charitable organization. These tax provisions technically expired at the end of 2014. We're assuming, given that 2016 is an election year, that Congress will not want to disappoint the voters and will eventually get around to extending these and other tax provisions retroactively, just as they did last year. Of course, there are no guarantees.

Change is a good thing!

We are happy to announce that we will be Strand Boyce O'Shaughnessy, CPAs, Inc. once the State Board of Accountancy approves our name change (which we expect to happen by the end of the year).

Bah-Humbug - Real Estate withholding tax can be a real pain!

The Franchise Tax Board has admitted that the process of matching real estate income tax withholding forms (Form 593) to individual income tax returns and applying the proper credit is prone to errors. This can cause delays in the processing of state income tax returns. Based on a recent study by the FTB, 30% of real estate withholding forms were not able to be processed due to various errors on the Form 593. Incomplete or inaccurate information accounted for about 80% of the processing problems. These included missing ID numbers for the seller or the spouse, missing names for the seller or the spouse, no close of escrow date, and business or trust names filed with individual ID numbers. In some cases, the title company never even filed the Form 593! The remaining 20% of forms not able to be processed were due to FTB keying, programming or processing errors. If you sell real estate that is subject to state income tax withholding, please send us the Form 593 as soon as you receive it so that we can review it and make sure all required information is properly reported.

Year End Planning Tips

The same suggestions as in the past few years still hold true:

- **If you have large capital gains this year, check to see if there are any capital losses you can generate by year end to offset the gains.**
- **If you have large capital gains, or any other significant increase in taxable income this year and you think you will owe state tax as a result, consider whether you should pay the state income tax due on this income in 2015. You may not get the maximum federal tax deduction for the state tax payment if you wait to pay it on April 15, 2016.**
- **Conversely, if you have very low taxable income, or even "negative" taxable income, this might be the ideal time to take distributions from your regular IRA, or convert your regular IRA to a Roth IRA, or sell some investments which will generate a capital gain, so that you take full advantage of your 0% tax bracket.**
- **Be sure to get an appraisal for any single item, or group of items of a similar type, which you are planning to donate to charity which is worth $5,000 or more. Your tax deduction will be limited to $5,000 if you don't have an appraisal.**
- **If you are a business owner and have not set up a retirement plan, but think you may want to contribute to a retirement plan for 2015 (by the due date of your business income tax return), you will have to set up the plan by December 31. The only exception is a SEP-IRA plan, which can be set up in 2016 and be effective for 2015. This plan must be in place by the due date of your business income tax return, including extensions.**
- **If you are planning to fund a regular IRA, Roth-IRA, or Health Savings Account for 2015, those accounts must be set up and funded by 4/15/2016. No extension is possible.**
- **Don't forget to take your required minimum distributions from retirement plans by December 31. This applies to those of you who are age 70-1/2 or older, and also to those who have an inherited IRA.**

We encourage you to call us if you have any questions about what you may be able to do by December 31 to reduce your tax hit on April 15.

Audit Notices

Franchise Tax Board is sending out letters to taxpayers who claim unreimbursed employee business expenses. They will ask to inspect the documentation supporting these deductions. Examples of the supporting documentation required are:

- Copy of Employer's policy regarding expense reimbursements
- Detailed transportation logs supporting the business miles claimed
- Detailed list of each expense or activity, the amount, and the business purpose

Reminder

Before you close a bank account, print all of the statements and reports that you think you may ever want or need. Once the account is closed you may not have access to those reports or to the account information ever again.

More About The Affordable Care Act

In our last newsletter, we discussed some of the "gotchas" in the Affordable Care Act. This time we will discuss some of the benefits.

Am I required to offer health insurance to my employees?

The biggest benefit for small businesses is that you don't have to choose between offering ACA-compliant health insurance or making Employer Shared Responsibility payments. Only Applicable Large Employers that average over 50 full-time employees have to make that choice. In other words, you are not required to offer health insurance.

I want to offer health insurance to my employees.

For those small employers who do want to offer health insurance, there are some benefits of ACA. First, small employers (employers with fewer than 50 full-time equivalent employees) can purchase health insurance for their employees through a state or federal SHOP Exchange. This insurance should be cost-competitive and it is guaranteed to be ACA-compliant.

Second, small employers that employ an average of 25 or fewer full-time employee equivalents and obtain health insurance through a SHOP Exchange may qualify for the Small Business Health Care Tax Credit if they meet certain requirements.

Third, self-employed individuals may enroll in individual Marketplace Exchange coverage, and may be eligible for a Premium Tax Credit depending on their net income and family size. Self-employed people who would normally have difficulty obtaining reasonably priced insurance, or any insurance at all, no longer have to rely on their spouse's employer's coverage.

Fourth, employers who obtain insurance through an insurer will not be responsible to navigate the technical requirement of the Marketplace reforms. It is the insurer's responsibility to design and provide coverage that meets the standards. Small employers are exempt from penalties attributable to the insurer for non-compliance. The exemption from penalties does not apply to those small employers that self-insure.

What are my new information reporting requirements under ACA??

There are new year-end information reporting requirements - Forms 1095. The good news for small employers, who do not self-insure, is that all of the new year-end information reporting is handled by the insurer.

However if you are self-insured or you are an Applicable Large Employer, there is additional compliance that you need to be aware of. Form 1095-C is a collection of information about your employees, their dependents and their health insurance. The form is due to employees by January 31, 2016 and to the IRS by February 29, 2016 if filing on paper (or March 31, 2016 if filing electronically).

If you are a large employer and are not using a payroll service, please let us know so we can refer you to a service that can help you with your compliance.

Santa's not the only one checking a list!

The Franchise Tax Board is also checking – and sharing – lists of information. The FTB enters into agreements with cities and counties to obtain business licensing data. FTB can then review income tax filings and determine whether a licensed business is not reporting to the state. At the same time, cities and counties can use the FTB's income tax reporting data to determine whether businesses located in their jurisdiction are complying with city business tax requirements.

Business owners: Check that you have a current business license. Some local jurisdictions only require an annual fee, while others base their tax on a percentage of gross revenue or income or payroll. Note also that working out of your house does not exempt you from licensing requirements.

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As always, we appreciate your referrals. Your confidence in us is greatly valued.

We say it each year, and it is still true today: We enjoy what we do and we enjoy working with you!

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We appreciate the confidence you have in us. It is not taken for granted.

And before you ring in the New Year ...

If you use your car for business, and your business year ends on 12/31, remember to make a note of your car's odometer reading that day. Then, when we ask you for the total miles you drove in 2015 you'll have the information you need to calculate the amount (because you wrote down the odometer reading on 12/31/14, right?). And of course you've been tracking the business miles you drove throughout the year? Hmmm - let's add that to your New Year's resolution list!

REJECTED!

When we see this notice after e-filing an extension request or an actual income tax return, we're prepared for the worst. The worst being: The IRS or Franchise Tax Board (or both!) already have a return on record under your social security number. Since it is not the return we prepared, someone else has already filed a return using your name and SSN. You've joined the club of millions of taxpayers who are victims of tax identity theft. Unfortunately, there is no way to proactively avoid this fate. In addition to being required to file the return the old-school way (paper return, mailed to IRS and/or FTB), there are identity theft affidavit forms to fill out and submit, and you should alert one of the credit reporting agencies. Another indication that you are probably a victim of tax identity theft: you receive a tax refund check or find funds deposited into your bank account that you were not expecting. (And do call us so we can help you return the money to the tax agency, because "Finders/Keepers" does not apply!).