Quarterly Newsletter
February 2015

INSIGHTS

A quarterly publication by
Siegfried & Luke, Inc.

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UPCOMING DEADLINES

March 16

- Initial due date for 2014 Corporate Return

April 15

- Initial due date for 2014 Individual, Partnership and Trust and Estate Income Tax Returns
- Due date for 2015 first quarter estimated tax payments
- Last day to make a contribution to a traditional IRA, ROTH IRA, or HSA

Affordable Care Act Reporting for 2014 Tax Return

Beginning this tax season, the Affordable Care Act (ACA) will require changes in every taxpayer's return. The changes will depend on how the taxpayer acquired health insurance coverage for the tax year being reported.

Taxpayers who have health insurance through an employer, private insurance, Medicare or Medicaid will simply need to have it indicated on their return that they have minimum essential coverage. The only extra thing to provide for reporting is a Form 1095-C or 1095-B if your employer or private insurer provides it. (This is a transition year for those two forms, so they are not required, but will be for the 2015 tax return).

Taxpayers who purchased a health plan through a Health Insurance Marketplace will need to document whether they received a government subsidy in the form of a tax credit to purchase the health insurance. Unlike most tax credits, the credit or subsidy can be applied to insurance premiums through the entire year. The credit will have to be reconciled on the tax return.

If the household income was overestimated remainder will be compensated in the form of a refundable credit that increases the taxpayer's refund amount or decreases the amount owed. If the household income was underestimated, the taxpayer will have to pay the subsidy back, which will decrease the taxpayer's refund amount or increase the amount owed.

Taxpayers who purchased their health plan through a Health Insurance Marketplace will receive a Form 1095-A which will need to be included in the documentation provided for your CPA.

Taxpayers who did not purchase health insurance in 2014 will have to pay a tax penalty. For tax year 2014, the annual one-time tax penalty is $95 per adult, or one percent of the taxpayer's total income, whichever is greater. For uninsured children within a family, the penalty is $47.50 per child, with a family maximum of $285 for the year.

Each year following 2014, the penalty increases – in 2015 the penalty is $325 per person and $162.50 per child – or two percent of the taxpayer's income. By 2016, the penalty rises to $695 per adult, $347.50 per child – or 2.5 percent of household income. ■

Siegfried & Luke, Inc. would like to introduce you to the newest member of our team! Kathleen Hamilton has joined us in the position of tax associate. She is a native of Atlanta who earned her Bachelor's degree in Business Administration in Accounting from The University of North Georgia.

Kathleen is in the process of taking the CPA exam and only has one more section of the four part test!

In her free time, she loves to be outdoors. Some of her favorite activities include being on the lake and riding horses.

Beware of Phone Scams this Filing Season

According to the IRS, taxpayers should be aware of the serious threat of phone scams for the 2015 filing season. IRS Commissioner John Koskinen warns taxpayers that a caller claiming to be from the IRS, who demands immediate payment while issuing aggressive threats, is certain to be a scam artist. The IRS has formal processes in place to protect taxpayer's rights and someone who owes tax will first be contacted through the mail.

Phone scams are convincing because the caller will alter their caller ID number to make it look like the IRS is calling. They will have fake names and bogus IRS badge numbers. If sent to voicemail, they will leave urgent callback requests. Koskinen explains that these criminals try to scare and shock taxpayers into providing personal financial information on the spot while caught off guard.

The IRS will never do the following:

1. Call to demand immediate payment, nor will the IRS call about taxes owed without first sending a bill in the mail.
2. Demand that you pay the taxes without giving you the opportunity to question or appeal the amount you owe.
3. Require you to use a specific payment method for your taxes, such as a prepaid debit card.
4. Ask for credit or debit card numbers over the phone.
5. Threaten to bring in local police or any other law-enforcement groups to have you arrested for not paying.

In the event you receive a call that asks for any of these things, please contact us and we will report the incident to the IRS or Treasury Inspector General for Tax Administration. ■

A Better Understanding of Business-Use Automobile

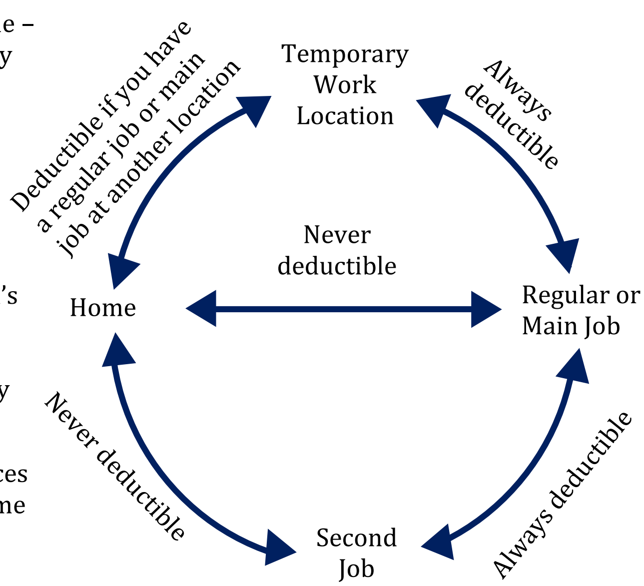
One of the more frequently encountered and commonly misunderstood deductions for businesses and individuals relates to automobile usage. Generally there are two ways to determine a deduction for business use of a vehicle – by using a standard mileage rate or by using actual expenses.

In order to qualify as business use, transportation expenses include the ordinary and necessary costs of the following:

- Getting from one workplace to another in the course of a person's business or profession.
- Visiting clients or customers.
- Going to a business meeting away from your regular workplace.

If a person works at two or more places in one day, whether or not for the same employer, he or she can deduct the transportation expenses for going between the two work places, but the expenses cannot be deducted if going to the second job from home.

Please refer to the following graphic for more information.



Home is the place where a person resides. Transportation expenses between home and the main work place cannot be deducted, no matter how far it is.

Regular or Main Job is the principle place of business. If a person has more than one job, he or she must determine which is the regular job by considering the time, activity, and income at each.

Temporary Work Location is a place where a person is assigned to work for one year or less. Unless a person has a regular place of business, this is only deductible if the temporary work location is outside of the metropolitan area.

Second Job travel expenses, whether the second job is for the same employer or not, can only be deducted when going from one workplace to another. Transportation between home and second job cannot be deducted.

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Automobile Deductions using Standard Mileage

A person who uses his or her vehicle for business purposes can deduct car expenses by applying the standard mileage rate.

Beginning January 1, 2015, the standard mileage rates for a car, van, pickup or panel truck are the following:

- 57.5 cents per mile for business miles driven, up from 56 cents in 2014
- 23 cents per mile driven for medical or moving purposes, down half a cent from 2014
- 14 cents per mile driven in service of charitable organizations.

The standard mileage rate includes factors for depreciation, lease payments, maintenance and repairs, gasoline, oil, insurance, and vehicle registration fees therefore additional expenses for these items cannot be added.

Those who would like to use the standard mileage rate and own their vehicle must use it in the first year that the car is being used for business purposes and can choose between standard mileage and actual expenses in later years. Those who would like to use standard mileage rates and lease the vehicle must use standard mileage rates through the entire lease period.

A person who uses his or her car for both personal and business purposes, has to divide the expenses between business and personal use based on miles driven for each purpose.

Automobile Deductions using Actual Expenses

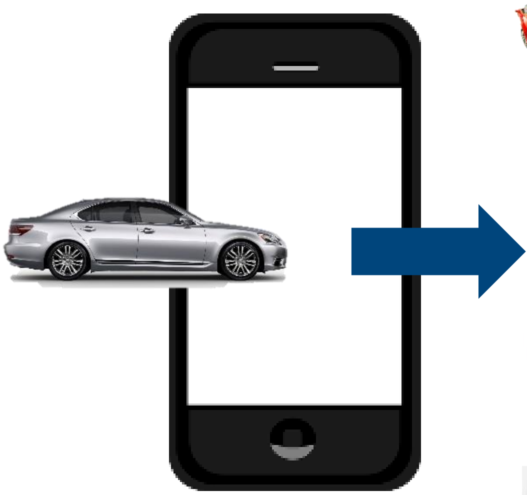
Vehicle owners who use their vehicle for business purposes and choose to deduct actual expenses can also claim a depreciation deduction so that each year there is a recovery of the cost or other basis of the vehicle. The amount of deductible expenses is based an allocation of expenses between business and personal use based on miles driven for each purpose.

Depreciation is the recovery of the cost of the vehicle over a number of years. A part of the cost can be deducted every year until the costs are fully recovered. It is possible to elect under section 179 to recover all or part of the cost of qualifying property up to a limit, by deducting it in the year the qualifying property was placed in service. Autos used for both business and personal purposes can only depreciate the business or investment use portion.

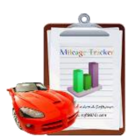
Here are more rules on transportation expenses and when they are deductible:

- Parking fees: only deductible when visiting a client or customer, not at a person's place of business.
- Car pools: no deductions are allowed on a nonprofit carpool and any money received from passengers is considered reimbursement of expenses and not income. If the carpool is for profit, the payments are considered income and car expenses can be deducted.
- Hauling tools or instruments: no deductions are allowed unless the person incurs additional costs, such as renting a trailer.
- Office in home: a person who has an office in their home that qualifies as the principle place of business may only deduct daily transportation costs between home and another work location in the same trade or business. ■

Mileage Tracking Phone Apps



There are several smartphone applications that can help taxpayers track their business mileage.



Mileage Tracker – automatically tracks mileage using GPS. It can calculate the expense and track your itinerary. Customizable reports can be created for tax time or for expense reporting. ($2.99 Android)

MileBug – automatically tracks mileage using GPS, includes expense tracking features, report printing, and a cloud data backup. ($2.99 Android & Apple)

MileIQ – GPS tracking, automatic calculations, cloud backup and personalized settings, this app offers 40 free drives every month, but can upgrade to unlimitedd drives for $5.99/month or $59.99/year.

Expensify –although acknowledged for being the best app for expense reporting, this app also tracks business mileage using GPS and converts reports to .PDF files. ($5.00/month for startups, nonprofits, churches, and student groups; $9.00/month for big and small companies; customizable pricing for more advanced features)

President Obama's Tax Code Change Proposals

In the State of the Union Address, President Obama outlined his plan for the tax code by unveiling his 2016 budget proposals. Here are some of the changes that President Obama has included in his plan.

- Minimize the opportunity for assets to be transferred to beneficiaries with a step-up in basis by triggering capital gain tax for transactions over a set value.
- Increase the highest long-term capital gains and qualified dividends rate to 24.2% from 20%.
- Limit the value of itemized deductions to 28% and impose a minimum 30% tax rate for certain high income taxpayers.
- Extend Section 179 expensing at $500,000 for 2015 with an increase to $1,000,000 for 2016, and indexing for inflation after 2016.
- Streamline child care tax incentives to give middle-class families with young children a tax credit of up to $3,000 per child.
- Consolidate six overlapping education provisions into two and improve the American Opportunity Tax Credit to provide $2,500 to more students each year (maxing out at 5 years) toward a college degree.
- Reduce the corporate income tax rate to 28%.

There has already been reversal on at least one detail of plan reforms. President Obama suggested restricting the tax benefits of 529 college saving plans, and after negative public reaction, decided to drop that piece of the plan. ■

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Certified Public Accountants

Every taxpayer's situation is different and requires careful review and analysis.

If you have any questions about any item covered in this newsletter or items that you have heard about but were not covered, please contact our office to schedule a time to discuss your questions in greater detail.

Information contained in this publication is for educational and informational purposes only. It should not be construed as specific tax or legal advice for your specific situation.

Please contact Siegfried & Luke, Inc. with any questions.

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