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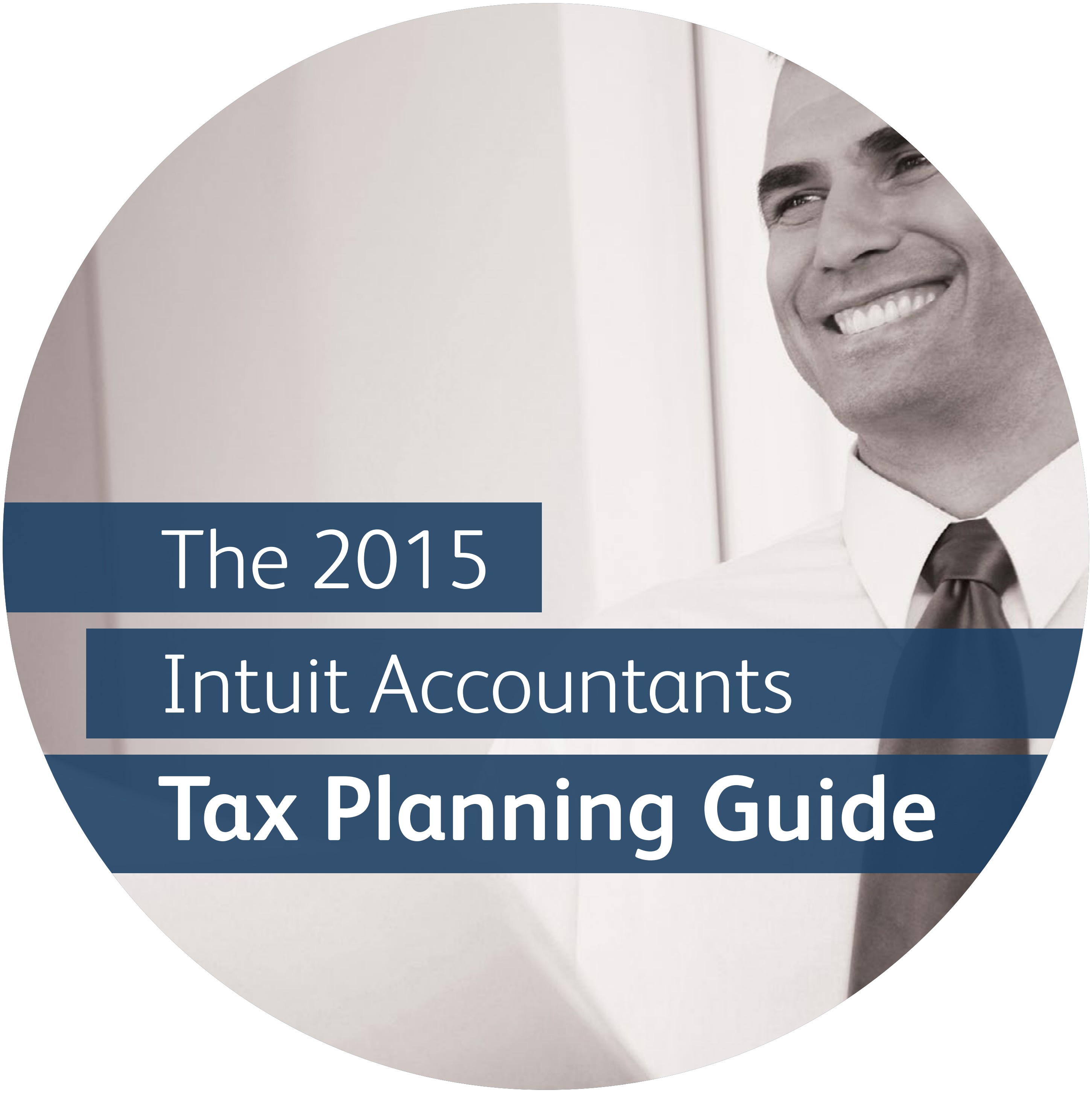

The 2015 Intuit Accountants Tax Planning Guide

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Welcome

Dear Tax Professional,

Thank you for your interest in Intuit professional tax software. To show our appreciation, we're extending you the Intuit® Accountants 2015 Professional Tax Planning Guide.

This Special Report is designed to help point your Tax Year 2015 research in the right direction. You'll also find practical tips that just might help you and your team work more efficiently.

As you know, nothing can take the place of your professional expertise. Tax laws and regulations change frequently and the application of these laws can vary widely based up the specific facts and circumstances involved. It's important for you to determine whether the information and interpretations provided in the following pages are accurate and how they apply to your practice—and to your clients.

Again, thank you for your interest in Intuit professional tax software. If you have any questions, don't hesitate to contact an Intuit Professional tax consultant at 1-877-682-4254.

Sincerely,

Kevin Reinard

Kevin Reinard
Intuit ProTax Product Specialist

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Tax Law Changes for 2015

With Congress deadlocked over major tax changes, the biggest news for 2015 is what Congress didn't do. While eleventh-hour legislation retroactively extended some expiring tax provisions for 2014, those extensions do not carry into 2015. So, absent another last-minute legislative fix, your clients should not count on any of these tax breaks for 2015:

- Election to claim an itemized deduction for state and local sales taxes in lieu of state and local income taxes
- $250 above-the-line deduction for expenses of teachers
- Deduction for mortgage insurance premiums
- Exclusion for discharged home mortgage interest
- Parity for exclusion of employer-provided mass transit and parking benefits
- Nonbusiness energy property credit for energy improvements to a residence
- Above-the-line deduction for qualified tuition and related expenses
- Increased deduction for qualified conservation contributions of real property to charity
- Tax-free IRA distributions for charity
- Credit for health insurance costs of TAA-eligible individuals and PBGC pension recipients

Tax Changes Taking Effect in 2015

Despite the lack of major legislation or administrative guidance, there are some tax changes taking effect in 2015 that may affect your clients' returns.

One IRA rollover per year. Effective January 1, 2015, a client may make only one tax-free IRA rollover per year regardless of how many IRAs the clients owns. Any additional rollovers will not qualify for tax-free treatment, even if the rollovers involve different IRAs.

In the past, the IRS interpreted this one-rollover-per-year rule in Code Section 408(d)(3) to apply on an IRA-by-IRA basis [see Prop. Reg. §1.408-4(b)(4)(ii)]. However, in a 2014 decision, the Tax Court held that the one-rollover-per-year rule applies on an aggregate basis [Bobrow, T.C. memo 2014-21]. The IRS subsequently announced that it would follow the Tax Court and withdraw the proposed regulation and revise IRS publications to reflect the Tax Court's interpretation [IRS Announcement 2014-32].

The IRS will apply the Tax Court interpretation to IRA distributions occurring on or after January 1, 2015. Thus, as a general rule, a client receiving an IRA distribution on or after that date cannot roll over any portion of the distribution if the client received a distribution from any IRA in the preceding 12-month period that was rolled over.

Transition relief. As a transition for 2015, a distribution occurring in 2014 that was rolled over will be disregarded in determining whether a 2015 distribution is eligible for tax-free rollover treatment, provided the 2015 is not from the IRA that made or received the 2014 rollover distribution.

IRS guidance makes it clear that a rollover from a traditional IRA to a Roth IRA (a Roth IRA conversion) is not subject to the one-rollover-per-year limitation and will be disregarded in applying the limitation to other rollovers. However, a rollover between Roth IRAs will preclude a separate rollover during the one-year period between a client's individual IRAs, or vice versa.

The one-rollover-per-year rule does not apply to a rollover from a qualified retirement plan to an IRA, nor does it apply to trustee-to-trustee transfers.

Practice Tip. When a rollover is barred by the one-rollover, clients should consider the option of a direct trustee-to-trustee transfer from one IRA to another. A trustee-to-trustee transfer can be accomplished by having the trustee transfer amounts directly from one IRA to another or by having the trustee write a check payable to the receiving IRA trustee.

New rules for retirement plan distributions. When a retirement plan contains both pre-tax and after-tax amounts, each distribution from the account is treated as including a pro-rata share of after-tax and pre-tax amounts. (Note, however, that special rules apply to annuity distributions). Under pre-2015 rules, if a single distribution included multiple disbursements, the IRS rules treated each portion as a separate distribution [see IRS Notice 2009-68]. Each part of the distribution was treated as including both after-tax and pre-tax amounts. For example, if a participant directed a distribution to be rolled over in part to the regular IRA and in part to a Roth IRA, each rollover distribution was treated as consisting partly of pre-tax and partly after-tax. The participant could not direct that all pre-tax amounts be directed to the traditional IRA in order to continue to defer tax on those amounts. Instead, pre-tax amounts allocable to the Roth IRA were subject to tax at the time of the rollover.

Effective for distributions in 2015 and later years, a new IRS notice provides that all disbursements that are made at the same time are treated as a single distribution [IRS Notice 2014-54]. If the pretax amount of the aggregated distribution is less than the amount that is directly rolled over to another qualified plan or IRA, then the entire pretax amount will be assigned to the rolled over portion of the distribution. If a direct rollover is applied to two or more plans or IRAs, then the participant can select how the pre-tax amount is allocated by informing the plan administrator of the allocation before the rollover. Thus, in our example, the participant can specifically direct pre-tax amounts to the traditional IRA.

Tax Law Changes for 2015, cont’d.

Practice Tip. Although multiple disbursements are treated as a single distribution for purposes of allocation of pre- and after-tax amount, each disbursement may be required to be reported on a separate Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. However, the IRS says the allocation rules in its new notice must be taken into account in determining the amount of pre-tax contributions allocated among direct rollovers and amounts paid to the plan participant.

Inflation adjusted penalties. Clients who perennially file late or don’t pay on time, should be forewarned that tax penalties are going up. The Tax Increase Prevention Act (Pub. L. No. 113-295 12/19/2014) provides for indexing of certain tax penalties for returns required to be filed after 2014, including the penalty for failure to file a return or pay tax under Code Section 6651.

Practice Tip. Tax pros should be forewarned that the law change also provides for indexing of the tax return preparer penalties under Code Section 6695. These include penalties for failure to sign a client’s return, to provide a copy of the return to the client, to retain a copy or list of returns prepared, to provide an identifying number on a prepared return, to follow due diligence requirements in calculating the earned income credit, and penalties for negotiating a client’s check.

Limit on electronic refunds. Taxpayers can have their refunds electronically deposited into a variety of financial accounts, including checking, savings, and prepaid debit card accounts. The IRS touts direct deposit refunds as quicker and safer than paper checks. However, starting in 2015, the IRS will limit the number of refunds electronically deposited into a single financial account or pre-paid debit card to three. The fourth and subsequent refunds automatically will convert to a paper refund check and be mailed to the taxpayer. Affected taxpayers will receive a notice informing them that the account has exceeded the direct deposit limits and that they will receive a paper refund check in approximately four weeks if there are no other issues with the return.

The IRS notes that the vast majority of taxpayers will not be affected by this limitation. However, the limitation may affect some taxpayers, such as families in which the parent’s and children’s refunds are deposited into a family-held bank account. Taxpayers in this situation should make other deposit arrangements or expect to receive paper refund checks.

Practice Tip. While continuing to encourage the use of direct deposits, the IRS says it is imposing the three-refund limit to prevent refund fraud. The three-refund limit is also intended to prevent tax return preparers from obtaining payment by directly depositing all or part of clients’ refunds in their own accounts. The IRS emphasizes that a refund must only be direct deposited into an account in the taxpayer’s name. Preparer fees cannot be recovered by directly depositing a client’s refund to the preparer’s account or by opening a joint bank account with taxpayers. These actions are subject to penalties under the Internal Revenue Code and to discipline for preparers subject to Treasury Circular 230.

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Key Tax Tax Facts for 2015

STANDARD DEDUCTION

Married filing jointly/surviving spouse	$12,600
Single	$6,300
Head of household	$9,250
Married filing separately	$6,300
Dependent taxpayers	$1000

ADDITIONAL STANDARD DEDUCTION

	65+ or blind	65+ and blind
Married/surviving spouse	$1,250	$2,500
Unmarried	$1,550	$3,100

PERSONAL EXEMPTIONS

Personal exemption amount	$4,000
	Phaseout range
Married filing jointly/surviving spouse	$309,900 - $432,400
Head of household	$284,050 - $406,550
Unmarried	$258,250 - $380,750
Married filing separately	$154,950 - $216,200

KIDDIE TAX

Amount taxed at child's rate	$1050
AMT exemption	earned income + $7,400

ADOPTION CREDIT

Maximum credit	$13,400
Phaseout range	$201,010 - $241,010

EDUCATION CREDITS

American Opportunity—max. credit	$2,500
Phaseout threshold—joint filers	$160,000 - $180,000
Phaseout threshold—all other filers	$80,000 - $90,000
Lifetime Learning-maximum credit	$2,000
Phaseout threshold—joint filers	$110,000 - $130,000
Phaseout threshold—all other filers	$55,000 - $65,000

EDUCATION SAVINGS BOND EXCLUSION

Phaseout range—joint filers	$115,750 - $145,750
Phaseout range—all other filers	$77,200 - $92,200

STUDENT LOAN INTEREST DEDUCTION

Phaseout range—joint filers	$130,000 - $160,000
Phaseout range—all other filers	$65,000 - $80,000

LONG-TERM CARE INSURANCE DEDUCTION

Age at close of year	Premiums eligible for medical expense deduction
40 or less	$380
More than 40 but not more than 50	$710
More than 50 but not more than 60	$1,430
More than 60 but not more than 70	$3,800
More than 70	$4,750

FOREIGN INCOME

Foreign earned income exclusion	$100,800

HEALTH FLEXIBLE SPENDING ACCOUNTS

Max. salary reduction contribution	$2,550

HEALTH SAVINGS ACCOUNTS

Type of coverage	Self-only	Family
HDHP deductible	$1,300	$2,600
Out-of-pocket expense cap	$6,450	$12,900
Maximum contribution	$3,350	$6,650

MEDICAL SAVINGS ACCOUNTS

	Self-only	Family
HDHP deductible	$2,200-$3,300	$4,450-$6650
Out-of-pocket expense cap	$4,450	$8,150

TRANSPORTATION FRINGE BENEFITS

Vanpool/transit pass monthly exclusion	$130
Qualified parking monthly exclusion	$250

INDIVIDUAL RETIREMENT ACCOUNT DEDUCTION

Maximum deduction	$5,500
Phaseout range—joint filers	$98,000-$118,000
Phaseout range—single/head of household	$61,000-$71,000
Phaseout range—married filing separately	$0-$10,000
Phaseout range—joint filer/active participant spouse	$183,000-$193,000
Catch-up contribution age 50 or older	$1,000

ROTH IRA CONTRIBUTION

Maximum contribution	$5,500
Phaseout range—joint filers	$183,000-$193,000
Phaseout range—single/head of household	$116,000-$131,000
Phaseout range—married filing separately	$0-$10,000
Catch-up contribution age 50 or older	$1,000

RETIREMENT SAVINGS CONTRIBUTION CREDIT

Credit percentage	50%	20%	10%
AGI limit—joint filers	$0-$36,500	$36,500-$39,500	$39,500-$61,000
AGI limit—head of household	$0-27,375	$27,375-$29,625	$29,625-$45,750
AGI limit—other filers	$0-$18,250	$18,250-$19,750	$19,750-$30,500

SOCIAL SECURITY TAXES

Maximum net taxable self-employment earnings	$118,500
"Nanny tax" threshold	$1,900

ANNUAL EXCLUSION FOR GIFTS

Gift tax exclusion	$14,000
Exclusion for gifts to a non-citizen spouse	$145,000

MILEAGE ALLOWANCES

Standard business mileage allowance	57.5¢
Medical and moving allowance	23¢
Charitable mileage allowance	14¢

ITEMIZED DEDUCTION PHASEOUT

Married filing jointly/surviving spouse	$309,900
Head of household	$284,050
Unmarried	$258,250
Married filing separately	$154,950

June 2015

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To-Do List

- □ Review tax law changes for 2015.
- □ Schedule much-needed R&R.

Notes

Key Compliance Dates

Wednesday, June 3 Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 27–29.

Friday, June 5 Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 30-June 2.

Wednesday, June 10 Tipped employees who received $20 or more in tips during May report them to the employer on Form 4070 (in Publication 1244, Employee's Daily Record of Tips and Report to Employer). Semiweekly depositors deposit FICA and withheld income tax on wages paid on June 3-5.

Friday, June 12 Semiweekly depositors deposit FICA and withheld income tax on wages paid on June 6-9.

Monday, June 15 Monthly depositors deposit FICA and withheld income tax for May. Individuals and calendar-year corporations pay second installment of 2015 estimated tax. Individuals outside the U.S. file Form 1040.

Wednesday, June 17 Semiweekly depositors deposit FICA and withheld income tax on wages paid June 10-12.

Friday, June 19 Semiweekly depositors deposit FICA and withheld income tax on wages paid June 13-16.

Wednesday, June 24 Semiweekly depositors deposit FICA and withheld income tax on wages paid June 17-19.

Friday, June 26 Semiweekly depositors deposit FICA and withheld income tax on wages paid June 20-23.

Tax Tips for Homebuyers: Raising the Downpayment

With analysts predicting a strengthening economy for 2015, many of your clients may be looking for a new home. In particular, millenials are expected to enter the housing market for the first time in 2015. But, even with the economy on the upswing, first-time homebuyers may find it necessary to tap a number of sources for that all-important downpayment. Here are some tax rules to keep in mind:

Family gifts. Many first-time homebuyers receive at least some assistance from their families. In the simplest situation, parents or other relatives will simply give the prospective homeowners gifts of cash to be used for the down payment and other homebuying expenses. In 2015, a taxpayer can give any individual up to $14,000 in a year without triggering a gift tax. If the taxpayer's spouse joins in the gift, the exempt amount doubles to $28,000 per individual. So, for example, parents can give a homebuying couple up to $56,000 in a single year free of gift tax. Larger gifts can be sheltered from tax by the unified estate and gift tax credit. For 2015, the credit effectively exempts up to $5.43 million of cumulative gift and estate tax transfers from tax.

Family loans. A parent or other relative may choose to help new homebuyers by making a no- or low-interest loan. The tax law normally imputes a market rate of interest on low- and no-interest loans between family members [IRC Sec. 7872]. That is, the lender is taxed as if he or she received taxable interest, which was then returned to the borrower as a gift. However, there are some important exceptions to this imputed interest rule:

- De minimis loans that do not exceed $10,000 are not subject to the imputed interest rule. However, bear in mind that for this purpose, a husband and wife are treated as one person. Therefore, parents cannot "double up" the exemption by making separate $10,000 loans to a child and the child's spouse. Similarly, parents can't increase the exemption by each making a $10,000 loan to the homebuying couple.

- Loans of up to $100,000 are subject to a special rule that limits the amount of imputed interest to the amount of investment income (i.e., interest and dividends) received by the homebuyers during the year. Thus, the imputed interest on such loans will be very low if the homebuyers have tapped their investments to purchase their new home.

Co-purchases. Some parents may want to consider co-purchasing a home with their children. A special break for "shared equity financing" can make this an attractive alternative for the parents. As long as a child pays fair-market rent, the parents are treated as landlords with respect to their share of the home.

> **Example.** Susan Alcott wants to buy the condominium unit that she has been renting for $1,000 a month. The owner will sell for $100,000, including a $10,000 down payment. Susan's father, Peter, agrees to split the purchase with Susan. Peter and Susan each pay $5,000 toward the down payment. They also split the mortgage payments, taxes, and other expenses on a 50-50 basis. In addition, Susan pays Peter $500 a month as rent for his half of the unit. Peter uses the rent money to cover his share of the condo expenses.

Result: The rental income Peter receives is taxable income. However, he can offset that income with significant deductions. In addition to deductions for mortgage interest and real estate taxes, Peter can write off his other costs as rental expenses. In particular, that means Peter can claim depreciation deductions for his half interest in the condo unit.

Retirement savings: Many homebuyers choose to tap into their retirement savings to finance a home purchase.

As a general rule, taxpayers will owe a stiff penalty if they withdraw funds from an individual retirement account (IRA) or 401(k) plan before retirement. The tax law imposes a 10% penalty on premature withdrawals that are made before a taxpayer reaches age 59 ½. However, special rules apply to withdrawals for homebuying expenses.

A penalty exception applies to up to $10,000 of lifetime withdrawals from a traditional IRA if they are used to purchase a home for a "qualified first-time homebuyer." However, those withdrawals will be subject to income tax. In the case of Roth IRAs, withdrawals will be tax free to the extent they do not exceed the nondeductible contributions to the account. Withdrawals of up to $10,000 of earnings for first-time home purchases will also qualify for tax-free treatment if the account has been in existence for at least five years. Withdrawals exempt from regular tax are also exempt from the penalty tax.

An individual qualifies as a first-time homebuyer if he or she did not own a principal residence during the two-year period before the purchase of a home. Therefore, taxpayers who have owned a home in the past can take advantage of the penalty exception. Moreover, the penalty exception applies even if the qualified first time homebuyer is not the IRA owner. Penalty-free withdrawals from an IRA may be made to buy a home for the IRA owner or spouse, a child or grandchild of the owner or spouse, or an ancestor of the owner or spouse.

Withdrawals from a 401(k) plan that are used for homebuying expenses (other than mortgage payments) are permitted as a "hardship" withdrawal. The withdrawals will be subject to regular tax and a 10% penalty tax (if applicable). However, 401(k) plan participants may have another option. If the plan permits it, a participant can borrow funds from his or her account to finance a home purchase. Plan loans are generally limited to lesser of $50,000, or 50% of the participant's plan account. As a general rule, 401(k) plan loans must be repaid in five years. However, here again, a special exception applies. A plan may give a participant a "reasonable time" to repay a home loan.

July 2015

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To-Do List

- ☐ Alert clients to 2015 mid-year tax planning opportunities.
- ☐ Schedule Continuing Professional Education for 2015.

Notes

Key Compliance Dates

Wednesday, July 1 Semiweekly depositors deposit FICA and withheld income tax on wages paid on June 24-26

Friday, July 3 Semiweekly depositors deposit FICA and withheld income tax on wages paid on June 27-30.

Wednesday, July 8 Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 1-3.

Friday, July 10 Tipped employees who received $20 or more in tips during June report them to the employer on Form 4070.

Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 4-7.

Wednesday, July 15 Monthly depositors deposit FICA and withheld income tax for June. Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 8-10.

Friday, July 17 Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 11-14.

Wednesday, July 22 Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 15-17.

Friday, July 24 Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 18-21.

Wednesday, July 29 Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 22-24.

Friday, July 31 Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 25-28. Deposit FUTA tax owed through June if more than $500. File Form 941 for the second quarter of 2015 (if tax deposited in full and on time file by August 10). File 2014 Form 5500 or 5500-EZ for calendar-year retirement and benefit plans.

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Tips for Homesellers: Getting Back to Basis

For every homebuyer, there is a homeseller. And, with the housing market making a comeback, you may have clients who are putting up “For Sale” signs. However, preparing for a home sale begins long before the “For Sale” sign goes up in the front yard. To properly determine gain or loss on the sale or exchange of a home, a taxpayer must know the basis of the home for tax purposes. And, calculating basis will involve information that dates back to the time the home was purchased—or even earlier.

The amount of gain or loss on a sale is determined by comparing the amount realized on the sale to the adjusted basis of the home. If the amount realized is greater than the adjusted basis, the difference is a gain. If the amount realized is less than the adjusted basis, the difference is a loss [IRC Sec. 1001(a); Reg. 1.1001-1(a)].

Cost Basis: In most cases, the starting point for determining basis is the cost of the home [IRC Sec. 1012].

If a home was purchased from the builder or from a former owner, the initial cost basis includes the purchase price and certain settlement costs. The purchase price generally includes the down payment and any debt, such as mortgage or notes, given to the seller in payment for the home [IRC Sec. 1012; Reg. 1.1012-1(a)].

Settlement fees or closing costs associated with the purchase of the home can be added to basis. However, fees associated with a mortgage on the home (e.g., appraisal fees, costs of a credit report, or mortgage insurance fees) are not added to basis. In addition, escrow amounts for payment of future liabilities are not included in the basis of the home. Examples of settlement fees that can be added to basis include:

- Abstract of title fees
- Charges for installing utility services
- Legal fees (e.g., fees for a title search and for preparing the sales contract and deed)
- Recording fees
- Survey costs
- Title insurance
- Transfer taxes

When a home changes hands, real estate taxes for the year of the sale are apportioned between the buyer and seller based on the number of days each of them held the property during the year [IRC Sec. 164(a)(1)]. The date of the sale counts as a day the property is owned by the buyer. Real estate taxes for the year of sale may increase or decrease basis, depending on how the taxes were handled at the closing. If the buyer paid taxes owed by the seller and was not reimbursed, the taxes increase the buyer’s basis of the home. If the seller paid taxes owed by the buyer and was not reimbursed, the taxes decrease the buyer’s basis of the home [IRC Sec. 1012; Reg. 1.1012-1(b)].

In the case of a home that was constructed by or for the taxpayer, basis includes the cost of the land plus the construction costs. However, if the taxpayer did all or part of the construction personally, basis does not include the value of the taxpayer’s own labor or the value of any other unpaid labor.

Basis Other Than Cost: Special rules apply in determining basis if a home was acquired other than by purchase or construction—for example, as a gift or inheritance, or as part of a divorce settlement. In addition, a taxpayer may have a basis other than cost if a home was acquired as a replacement home in a home-sale rollover under prior law.

Adjustments to Basis. A taxpayer’s basis in a home is not static. Basis may be adjusted upward or downward to reflect expenditures made in connection with the home or payments, or other benefits received [IRC Sec. 1016].

Improvements that increase basis include:

- Additions to the home, such an extra bedroom or bath, a family room, a deck or patio, or a garage.

- Landscaping and other outdoor improvements, such as a new driveway or walkway, fences and walls, a sprinkler system or a swimming pool.

- Systems improvements, such as a new heating system, central air conditioning, a new furnace or ductwork, wiring upgrades, a septic system, a water heater or water filtration system, a satellite dish, or a security system.

- Exterior improvements, such a new storm windows or doors, a new roof, siding, or shutters.

- Interior improvements, such as built-in appliances, kitchen cabinetry, flooring, wall-to-wall carpeting, and insulation.

Caution: Improvements that are no longer part of a home are not included in the home’s basis.

> **Example.** Joan Gordon bought her home for $200,000 in 2005. In 2006, Gordon added a deck to the home at a cost of $6,000. In 2012, Gordon remodeled the home, which involved removal of the deck and the addition of a new covered porch. The addition and porch cost $30,000. Result: After the addition of the deck in 2006, Gordon’s basis in the home increased to $206,000. However, after the deck was removed in 2012, it was no longer included in the home’s basis. Therefore, Gordon’s basis for the home following the remodeling is $230,000 ($206,000 - $6,000 + $30,000).

Examples of repairs that do not increase basis (unless they are part of an overall renovation or remodeling) include interior or exterior painting, fixing gutters, repairing leaks or plastering, and replacing broken windowpanes.

Practice Pointer. For many long-time homeowners, calculating basis will mean digging through piles of old records and receipts. And, even then, the number they come up with may be a “guesstimate.” You can help clients who are new to the housing market by giving them a list of items that are included in or will add to the basis of their new home. By tracking expenditures on an ongoing basis, they’ll be prepared when it is time to move on.

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Key Compliance Dates

Wednesday, August 5 Semiweekly depositors deposit FICA and withheld income tax on wages paid on July 29-31.

Friday, August 7 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 1-4.

Monday, August 10 Tipped employees who received $20 or more in tips during July report them to the employer on Form 4070. File Form 941 for the second quarter of 2014 if tax deposited in full and on time.

Wednesday, August 12 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 5-7.

Friday, August 14 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 8-11.

Monday, August 17 Monthly depositors deposit FICA and withheld income tax for July.

Wednesday, August 19 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 12-14.

Friday, August 21 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 15-18.

Wednesday, August 26 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 19-21.

Friday, August 28 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 22-25.

To-Do List

□ Remind clients of September 15 estimated tax payment for individuals and calendar-year corporations.

□ Remind calendar-year corporations with returns on extension of September 15 filing deadline.

□ Alert clients who are parents of first-year college students of the American Opportunity tax credit.

Notes

Back to School: Maximizing Education Tax Credits for Clients

As students head back to college, they and their families face the increasingly daunting task of paying tuition bills. The tax law does provide some relief. For example, the American Opportunity credit and the Lifetime Learning credit can reduce the after-tax cost of college expenses.

Tax professionals also have a role here. They can help clients obtain maximum benefit from these incentives.

Test Your Credit Score. For 2015, eligible taxpayers can claim an American Opportunity credit of 100% of the first $2,000 of qualifying expenses and 25% of the next $2,000 of qualifying expenses for each of the first four years of a student's higher education—a maximum credit of $2,500 per student per year. The Lifetime Learning credit is available for 20% of up to $10,000 of qualifying higher expenses, up to a maximum credit of $2,000 per year. Unlike the American Opportunity credit, the Lifetime Learning credit is calculated on a per-family (i.e., per tax return) basis, not on a per-student basis. Moreover, both the American Opportunity and Lifetime Learning credits cannot be claimed for the same student in a tax year.

The credits are phased out for higher income taxpayers. For 2015, the Lifetime Learning credit is phased out for joint filers with modified adjusted gross income (MAGI) between $110,000 and $130,000, and for other filers with MAGI between $55,000 and $65,000. The phaseout range for the American Opportunity credit is $160,000 to $180,000 for joint filers and $80,000 to $90,000 for other filers. On the other hand, up to 40% of the American Opportunity credit is refundable for taxpayers with little or no tax liability to offset.

Timing Counts. The credits are generally allowed only for payments of qualifying expenses for an academic period beginning in the same tax year the payments are made. (An academic period is a quarter, semester, trimester or other period of study, such as a summer school session, as reasonably determined by the eligible educational institution.)

However, there is an exception to the general rule. If qualified tuition and related expenses are paid during one tax year for an academic period that begins during the first three months of the next tax year (i.e., in January, February, or March of the next tax year for calendar year taxpayers), an education tax credit is allowed, not in the year the academic period begins, but instead, in the year the expenses are paid [IRC Sec. 25A(g)(4)].

> **Example.** Zelon College charges Charlie Abbott $2,000 in qualifying expenses to attend classes during the 2016 spring semester, which begins in February 2016. If Abbott pays the college in December 2015, he can claim an education tax credit in 2015 for the 2016 spring semester expenses. On the other hand, if Abbott makes the $2,000 payment in January 2016, the general rule applies and the payment is creditable in 2016.

Borrowing Counts. An education credit may be claimed for qualified tuition and related expenses paid with the proceeds of a loan. The credit can be claimed only in the year payment is made with the loan proceeds, not in the year the debt is incurred or the year it's repaid.

Loan proceeds disbursed directly to a college will be treated as "paid" on the date the college credits the proceeds to the student's account. For example, in the case of any loan issued or guaranteed as part of a federal student loan program under Title IV of the Higher Education Act of 1965 (e.g., Pell Grant), loan proceeds will be treated as paid on the date of disbursement to the college.

While a client has little control over the date the college credits the account, the client may want to ask the college precisely when date that is. This can make a difference as to which year the credit can be claimed. IRS regulations provide that if a taxpayer does not know the date the college credits the student's account, the taxpayer must treat the qualifying expenses as paid on the last date for payment prescribed by the college [Reg. 1.25A-5(e)(5)]. This might force a delay in claiming the credit.

Family Counts. If a client claims a student as a dependent, the client can claim an education credit for the student's expenses. Moreover, any expenses paid or deemed paid by the student are treated as paid by the client when figuring the credit. Thus, for example, a client can claim an education credit for college expenses paid by a dependent student with earnings from a summer job or from college loans in the student's name.

If a third party (say, a grandparent or a noncustodial parent) makes payment directly to an eligible educational institution for a student's education expenses, the student is treated as receiving the payment from the third party and, in, turn paying the expenses to the institution. Thus, if the student is claimed as dependent by your client, the payments can be taken into account in calculating your client's credit.

On the flip side, if your client does not claim the student as a dependent, the student can claim an education credit on his or her return. That's true even if your client is eligible to claim the student as a dependent. Moreover, payments made by the client for the student's expenses can be counted towards the credit on the student's return.

September 2015

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Key Compliance Dates

Wednesday, September 2 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 26-28.

Friday, September 4 Semiweekly depositors deposit FICA and withheld income tax on wages paid on August 29-September 1.

Thursday, September 10 Tipped employees who received $20 or more in tips during August report them to the employer on Form 4070. Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 2-4.

Friday, September 11 Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 5-8.

Tuesday, September 15 Monthly depositors deposit FICA and withheld income tax for August. Individuals and calendar-year corporations pay third installment of 2015 estimated tax. Calendar-year corporations file 2014 income tax return (Form 1120 for C corporations; 1120S for S corporations) if automatic six-month extension was obtained. Partnerships file 2014 Form 1065 if automatic five-month extension was obtained.

Wednesday, September 16 Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 9-11.

Friday, September 18 Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 12-15.

Wednesday, September 23 Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 16-18.

Friday, September 25 Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 19-22.

Wednesday, September 30 Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 23-25.

To-Do List

- □ Schedule appointments with individual clients for year-end tax planning sessions.
- □ Remind individual clients of automatic six-month extensions on October 15 filing deadline for 2014 returns.
- □ File returns for calendar-year corporations and partnerships that obtained automatic extensions.

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The IRS Annual Filing Season Program: Any Volunteers?

After a failed attempt to impose mandatory continuing education (CE) and competency testing requirements on tax return preparers, the IRS has now launched a voluntary program for unenrolled preparers [Rev. Proc. 2014-42]. The program, which was introduced under transitional rules for the 2015 tax return filing season, will be fully operational for the 2016 tax filing season—and tax return preparers must decide whether to volunteer.

According to the IRS, the Annual Filing Season program is intended to "recognize and encourage" the voluntary efforts of unenrolled preparers to increase and improve their competency through continuing professional education. The program is not directed at or necessary for credentialed preparers, which include attorneys, CPAs, enrolled agents, enrolled retirement plan agents or enrolled actuaries.

CE Requirements. Preparers participating in the program must obtain 18 hours of continuing education from an IRS-approved CE provider. The 18 hours must include a 6 credit hour Annual Federal Tax Refresher (AFTR) course that covers filing season issues and tax law updates. The remaining hours must include 10 hours of federal tax law topics and 2 hours of ethics.

The AFTR course includes a knowledge-based comprehension test administered at the conclusion of the course by the CE provider. The test consists of a minimum of 100 multiple choice and true/false questions, subject to a 70% pass rate. The AFTR course and test will be developed by the CPE provider. However, the IRS does provide a course outline and test parameters that must be followed by CPE providers. (For a look at the course outline for the 2015 tax filing season, see http://www.irs.gov/pub/irs-utl/IRS_RPO_FTR_Course_Outline_Rev%20%208-18-14_.pdf)

There are some exemptions from the AFTR course. In particular, any individual who passed the now-defunct Registered Tax Return Preparer Test when it was given between November 2011 and January 2013 can skip the annual AFTR course and exam. They will need to complete only 15 hours (10 federal tax law topics, 3 federal tax law updates, 2 ethics) to meet the CE requirements. Other exemptions apply to participants in certain state-based return prepare programs, VITA volunteers, practitioners who have passed Part I of the IRS Special Enrollment Exam, and holders of certain tax-focused credentials. The IRS says that over 62,000 preparers passed the Registered Tax Return Preparer Test before it was discontinued.

Other Requirements. To participate in the program, applicants must be eligible for or obtain a Preparer Tax Identification Number (PTIN) or renew an existing PTIN. In addition, participants must voluntarily agree to be subject to Treasury Department Circular 230, which lays down ethical and other rules governing practice before the IRS.

Annual Filing Season-Record of Completion. Tax return preparers who complete the CE and meet the other requirements receive an Annual Filing Season-Record of Completion.

Upon completion of the CE requirements, return preparers will receive notice of their potential eligibility for the program. Preparers must log in to the PTIN accounts to complete the process, including consenting to adhere to the practice obligations in Circular 230.

After PTIN renewal season begins in October, a Record of Completion will be generated for the coming filing season. It may take up to four weeks following the completion of all requirements to receive a Record of Completion. Moreover, a Record of Completion will not be used until a preparer's PTIN is renewed for the coming year.

To obtain a Record of Completion, a return preparer must complete and pass the AFTR course (unless exempted), as well as meet the other CE requirements by December 31, prior to the start of the tax season.

> **KEY POINT** The IRS emphasizes that the Annual Filing Season Program is strictly voluntary and no tax return preparer is required to participate. Moreover, the program does not restrict any individual from preparing and signing tax returns and refund claims. The IRS is, however, taking a "carrot and stick" approach to participation.

The carrot. Preparers who obtain an Annual Filing Season-Record of Completion will be listed in a special directory on irs.gov for taxpayers to use in searching for qualified tax return preparers. The Directory of Federal Tax Return Preparers with Credentials and Select Qualifications lists only attorneys, CPRAs, enrolled agents, enrolled retirement plan agents, enrolled actuaries—and unenrolled preparers who have received an Annual Filing Season Program-Record of Completion. The IRS is launching a public marketing campaign to encourage taxpayers to seek tax return preparers that make the list.

The stick. Under longstanding IRS rules, an unenrolled preparer who prepared and signed a client's return or refund could represent the client before the IRS during an examination of that return [Rev. Proc. 81-38]. However, those rules are changing. For tax returns and claims prepared and signed after December 31, 2015, only participants in the Annual Filing Season Program who obtain a Record of Completion will be able to represent clients who returns they have prepared and signed. Unenrolled preparers will continue to have representation rights with respect to returns prepared and signed for calendar year 2015.

October 2015

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Key Compliance Dates

Friday, October 2 Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 26-29.

Wednesday, October 7 Semiweekly depositors deposit FICA and withheld income tax on wages paid on September 30-October 2.

Friday, October 9 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 3-6.

Tuesday, October 13 Tipped employees who received $20 or more in tips during September report them to the employer on Form 4070.

Thursday, October 15 Monthly depositors deposit FICA and withheld income tax for September. Individuals file 2014 income tax return if automatic six-month extension was obtained. Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 7-9.

Friday, October 16 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 10-13.

Wednesday, October 21 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 14-16.

Friday, October 23 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 17-20.

Wednesday, October 28 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 21-23.

Friday, October 30 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 24-27.

To-Do List

- □ Conduct year-end tax planning sessions with individual clients.
- □ Remind individual clients to use flexible spending account funds before year end, unless plan provides post year-end grace period or carryover.
- □ File returns for individual clients who obtained automatic six-month extensions.
- □ Renew Preparer Tax Identification Number (PTIN) for 2015.

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myRAs: A New Retirement Plan Option

The Treasury Department has rolled out a new type of payroll deduction retirement account for American workers. Dubbed a myRA (short for my Retirement Account), these accounts are primarily aimed at employees of small businesses that do not sponsor qualified retirement plans. Treasury guidance makes it clear, however, that myRAs are not just for small businesses. According to Treasury, the myRA program will fill in a void for employees, such as part-timers, who do not qualify for their employers' existing retirement plans or who want to supplement a current plan.

What are myRAs? myRAs are modeled on Roth IRAs, and have the same tax treatment and follow the same rules as Roth IRAs. Under the Roth IRA rules, contributions to the accounts are made with after-tax dollars. However, qualified distributions—including any accumulated earnings—are tax-free as long as the account has been in existence for 5 years. In addition, distributions that are not qualified (i.e., are made before 5 years) are treated as contributions to the account. Accordingly, nonqualified distributions are subject to tax—and to a 10% early distribution penalty--only to the extent that they dip into account earnings.

myRA contributions. As under the Roth IRA rules, the maximum annual myRA contribution is $5,500 for 2015, with individuals age 50 or older eligible to make up to $1,000 of additional contributions each year. For 2015, contributions are phased out for single or head of household filers with incomes between $114,000 and $129,000, for joint filers with incomes between $181,000 and $191,000, and for marrieds filing separately with incomes between $0 and $10,000. These contribution and phaseout limits are subject to annual cost-of-living adjustments.

Contributions to myRA accounts are invested in a new United States Treasury security, which earns interest at the same variable rate as investments in the government securities fund for federal employees. This fund has had an average annual return of 3.39% over the 10-year period from December 2003 to December 2013.

There is no minimum contribution requirement. Employees can contribute as much or as little as they choose up to the applicable contribution limit for the year. However, it is possible for an employee to "max out" a myRA. A myRA account can have a maximum balance of $15,000 or a lower balance for up to 30 years. When either of those limits is reached, savings will have to be rolled over into a private-sector Roth IRA.

Payroll deductions. Currently, contributions to myRAs can be made only through direct deposit of payroll deductions to an employee's myRA account (although Treasury says additional contribution will become available).

To establish a myRA, an employee sets up a myRA account online at myRA.treasury.gov and submits a direct deposit authorization to his or her employer for the contributions. It costs nothing to open an account and there are no fees for the maintenance of the account.

Sponsoring employers. An employer's involvement with myRAs can be limited to processing employees' payroll deduction contributions—or an employer can take an active role in promoting myRAs to employees.

The Treasury has developed a myRA guide for employers, as well as a variety of materials to help employees learn about myRAs and get signed up. Resources for employers include myRA posters to hang in the workplace, a brochure and FAQs for distributions to employees, a sample email for employees on myRAs, a web banner and content for use on a company intranet, and a toolkit for conducting an employee meeting about myRAs. These and other resources can be found on the myRA website at myRA.treasury.gov.

November 2015

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Key Compliance Dates

Monday, November 2 Employers file Form 941 for the third quarter of 2015 (if tax was deposited tax in full and on time file by November 10). Deposit federal unemployment tax owed through September if more than $500.

Wednesday, November 4 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 28-30.

Friday, November 6 Semiweekly depositors deposit FICA and withheld income tax on wages paid on October 31-November 3.

Tuesday, November 10 File Form 941 for the third quarter of 2015 if tax for the quarter was deposited in full and on time. Tipped employees who received $20 or more in tips during October report them to the employer on Form 4070.

Thursday, November 12 Semiweekly depositors deposit FICA and withheld income tax on wages paid on November 4-6.

Monday, November 16 Monthly depositors deposit FICA and withheld income tax for October. Semiweekly depositors deposit FICA and withheld income tax on wages paid on November 7-10.

Wednesday, November 18 Semiweekly depositors deposit FICA and withheld income tax on wages paid on November 11-13.

Friday, November 20 Semiweekly depositors deposit FICA and withheld income tax on wages paid on November 14-17.

Wednesday, November 25 Semiweekly depositors deposit FICA and withheld income tax on wages paid on November 18-20.

Monday, November 30 Semiweekly depositors deposit FICA and withheld income tax on wages paid on November 121-24.

To-Do List

- □ Remind individual clients, whose withholding status will change in 2016, to submit new W-4 forms to their employers.
- □ Remind individual clients, who may have underpaid estimated taxes, to increase withholding from salary and wages to make up for shortfall.
- □ Renew PTIN
- □ Register online to use IRS e-services. Preparers who anticipate filing 11 or more 1040, 1040A, 1040EZ and 1041 during the year must file electronically.
- □ Set up tax preparation software and test e-filing. Download IRS e-file logo and order IRS e-file marketing materials. See the *EFTPS Tool Kit* at http://www.irs.gov/pub/irs-pdf/p4320.pdf

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Beware of HSA–FSA Overlap

At this time of year, it is open enrollment season for benefits at many companies—and your clients may be choosing their health coverage for the coming year. If your clients are typical, many of them will opt for a high deductible health plan (HDHP) coupled with a health savings account (HSA) to pay for out-of-pocket medical expenses. According to the latest survey from America's Health Insurance Plans (AHIP) Center for Policy and Research, the number of individuals enrolled in HDHP/HSA coverage has steadily increased over the last several years, with 17.4 million enrollees with HDHP/HAS coverage in January 2014.

> **Caution:** For clients who are new to HDHP/HSA coverage, a word of caution is in order. HSAs and health flexible spending accounts (FSAs) don't mix. Clients who have contributed to a health FSA in prior years will have to discontinue those contributions once they switch to HDHP/HSA coverage. Moreover, clients should be careful to avoid an unintentional HSA-FSA overlap.

Symptoms of HSA-FSA Overlap. An HSA can offer double tax benefits: Contributions made with pre-tax dollars and distributions from the account are tax-free if used for qualifying medical expenses. However, an individual is eligible for contributions to an HSA only if he or she is covered by a high deductible health plan (HDHP) and does not have coverage under another plan (other than certain permitted coverage) [IRC §223(c)(1)(A)]. A general purpose health FSA constitutes other coverage that is incompatible with an HSA. Therefore, an employee cannot make or receive tax-favored HSA contributions in any year that he or she has coverage under a health FSA. However, HSA-FSA overlap can occur even if an individual does not make or receive any FSA contributions.

Under a new FSA option, plans can now allow up to $500 of unused FSA contributions to be carried over to the following plan year [Notice 2013-71, 2013-47 IRB 532]. However, IRS guidance indicates that the carryover option can have unintended side effects.

In a Chief Counsel Memorandum, the IRS says the prohibition on HSA contributions applies to an individual who has general purpose FSA coverage solely as a result of a carryover of unused amounts in a health FSA from the prior year [CCA 201413005 (February 12, 2014)]. What's more, the prohibition will applies for the entire plan year, even if the FSA is tapped out early in the year. The individual will be barred from HSA contributions for the entire plan year, including months in the plan year after the health FSA no longer has any amounts available to pay or reimburse medical expenses.

Overlap Antidote. Fortunately, there are some antidotes for HSA-FSA overlap.

If the employer' plan permits, an employee who participates in a general purpose health FSA for one year and chooses HSA coverage for the following year can elect to have any unused FSA amounts carried over to an HSA-compatible FSA. The IRS says that there is no requirement in the new carryover rules that unused amounts in a general purpose health FSA be carried over to a general purpose health FSA. However, unused amounts may not be carried over to a non-health FSA or to another type of cafeteria plan benefit.

HSA-compatible FSAs include limited purpose FSAs that restrict reimbursements to additional health coverage that is permitted under the HSA rules (such as vision, dental, or preventive care benefits) and post-deductible FSAs that provide reimbursements only after the minimum annual HDHP has been satisfied [Rev. Rul. 2004-45, 2004-22 IRB 971].

A plan can also offer an employee, who switches from a general purpose FSA to an HSA, the option of declining or waiving any carryover of unused FSA funds. An employee must make this election prior to the beginning of the plan year in which he or she wishes to participate in the HSA.

December 2015

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Key Compliance Dates

December Employees whose withholding status will change in 2016 should submit a new Form W-4 to the employer. The new form should be submitted as early as possible to guarantee implementation of the withholding change in January.

Wednesday, December 2 Semiweekly depositors deposit FICA and withheld income tax on wages paid on November 25-27.

Friday, December 4 Semiweekly depositors deposit FICA and withheld income tax on wages paid on November 28–December 1.

Wednesday, December 9 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 2-4.

Thursday, December 10 Tipped employees who received $20 or more in tips during November report them to the employer on Form 4070.

Friday, December 11 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 5-8.

Tuesday, December 15 Monthly depositors deposit FICA and withheld income tax for November. Calendar-year corporations pay fourth installment of 2015 estimated tax.

Wednesday, December 16 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 9-11.

Friday, December 18 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 12-15.

Wednesday, December 23 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 16-18.

Monday, December 28 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 19-22.

Wednesday, December 30 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 23-25.

To-Do List

- □ Establish tax return preparation procedures.
- □ Develop tax preparation docket sheet.
- □ Analyze tax season staffing needs.
- □ Prepare tax season work assignments.
- □ Prepare tax preparation packets for clients
- □ Review new tax developments.
- □ Remind individual clients of January 15 due date for final 2015 estimated tax payment.

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Five Things You Can Do Now to Prepare for Tax Season

You may have a well-appointed office, state-of-the-art computers, a complete tax library, and the best tax preparation software money can buy. However, the success of the upcoming tax season will depend on something less tangible—the efforts of you and your staff members.

1. Streamline Your Operation

You may feel that returns did not move smoothly through your office last tax season. Perhaps, some personnel weren't quite sure what they were supposed to do, while others were juggling multiple jobs. This kind of disorganization can result in inefficient and costly use of staff time—for example, highly paid return preparers may have spent valuable time assembling and mailing returns.

> **Action step:** Set up procedures for how a return is to move through the office. As part of these procedures, establish clear-cut roles for everyone in the office—return preparer, reviewer, signer, and support services such as e-Filing and billing. Design a docket sheet outlining each step in the return preparation process, and require staff members to initial the sheet when each step is completed for a particular return. In addition to helping things run more smoothly, this practice can help establish staff accountability.

2. Review Staff Performance

Although you may have a general idea of how your office performed last tax season, you may not have given much thought to how staff members performed on an individual basis and how they need to grow and improve.

> **Action step:** Evaluate how each staff member performed in specific areas, including technical knowledge, client relations, and management of subordinates, to determine the need for further training. For example, you may find that a return preparer spent too much time researching basic tax questions or was not adequately informed on the latest developments. If so, attendance at some brush-up courses or tax seminars may be in order. Staff members who experienced difficulties in dealing with clients or co-workers may need additional mentoring and instruction.

3. Address Staff Shortages

Every tax professional expects to work long hours during tax season. However, there is a limit—even during tax season. Tired, overworked return preparers are more prone to errors.

> **Action step:** Consider hiring temporary, seasonal help to ease the workload. By compiling statistics on returns, refunds, and extensions filed each month, you'll be able to determine your needs in this area. If you make it a regular practice to hire temporary help during the busy season, you may even be able to build up a core group—of both professionals and support staff—that you can call in every year. These people will be familiar with your office procedures and your clients so that you won't have to "break them in" each year. As an added benefit, you'll have a list of reliable, proven personnel to call in if you run into a crunch at other times during the year.

4. Consider Return Assignments

You may have traditionally followed a practice of assigning returns to staff members on a first-come, first-served basis. This approach has its pluses—clients who supply you with tax data early in the season get the attention they deserve, while laggards must wait their turn. However, it also has its minuses—with highly skilled, senior preparers devoting their time to simple returns, while more junior staff members struggle with more complex returns.

> **Action step:** Develop workgroups within your staff, composed of both senior and junior members, with a senior person in charge of each workgroup. By making assignments for both simple and more complex returns on a workgroup basis, you can help to ensure that appropriate staff members will handle each return.

5. Consult Your Staff

Your staff may have some good ideas on how to improve the way the office operates during tax season. But, they may be hesitant to come to you with them.

> **Action step:** Actively solicit staff suggestions on areas for improvement. Let your staff know you value their opinions. As part of this process, you should also share with your staff your perspective—in a nonjudgmental manner—on how the past tax season went. Your staff will also probably be interested in firm statistics and how the last tax season measured up against expectations and prior years.

January 2016

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To-Do List

- □ Send tax preparation packets and tax data organizers to individual clients.
- □ Alert individual clients to the option of filing the 2015 return by February 1, in lieu of making final 2015 estimated tax payment.
- □ Remind business clients of information reporting requirements.

Key Compliance Dates

Monday, January 4 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 26-29.

Wednesday, January 6 Semiweekly depositors deposit FICA and withheld income tax on wages paid on December 30–January 1.

Friday, January 8 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 2-5.

Monday, January 11 Tipped employees who received $20 or more in tips during December report them to their employers on Form 4070.

Wednesday, January 13 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 6-8.

Friday, January 15 Monthly depositors deposit FICA and withheld income tax for December. Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 9-12. Individuals pay final installment of 2015 estimated tax.

Thursday, January 21 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 13-15.

Friday, January 22 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 16-19.

Wednesday, January 27 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 20-22.

Friday, January 29 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 23-26.

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On the Record: Getting Your Clients Tax Data In Order

Your office is probably geared up and ready for tax return season. Your tax software is installed and ready to go. Your tax pros are up to speed on the latest tax developments. However, there's one thing still missing—that all-important tax data that will allow you to prepare accurate, complete, and timely tax returns for your clients.

You may have sent tax data organizers to your clients well in advance of tax season, but now is a good time for a quick brush up—for both you and your clients—on the tax records that will be needed to substantiate the amounts reported on the 2015 tax return.

Basic Tax Records

Tax records fall into three basic categories:

Income: The majority of taxpayers will receive an annual statement of wages from their employers on Form W-2. This statement shows gross wages and deductions from their pay for Social Security and Medicare taxes, as well as both pre-tax and after tax voluntary deduction for items such as health insurance or union dues.

On the other, hand self-employed taxpayers will not receive Form W-2. They should receive Forms 1099-MISC for payments of $600 or more for services performed in the course of a client or customer's trade or business. (Attorney's fees paid in the course of a trade or business must be reported on Form 1099-MISC regardless of the amount.) Under current rules, self-employed and other business clients that accept credit cards will receive reports of those transaction on Form 1099-K.

However, payments for services that are not connected with a client or customer's trade or business or charged to a credit card are not required to be reported. Therefore, the onus is on the self-employed taxpayer to keep track of payments received—and a good recordkeeping system is key. Moreover, a slipshod recordkeeping system may lead the IRS to question the accuracy of the taxpayer's reported income.

Your clients may also have income from investments that may be reported to them on a variety of forms. These may include brokerage statements, mutual fund statements, bank statements, Forms K-1 from partnerships or S corporations, and 1099 forms.

Personal deductions and credits: A taxpayer's records should back up the purpose and amount of each expense for which a deduction or credit is claimed—and proof that the payment was actually made.

Special substantiation requirements apply to some common deductions and credits. For example:

Alimony: Taxpayers who pay alimony should maintain a copy of the divorce decree, separate maintenance agreement, or other documents that specified the basis for the payments. They should also have a record of the name, address, and Social Security number of the ex-spouse to whom the payments were made. And, of course, they should have proof of the alimony payments. If the payments were made indirectly, the taxpayer's records should show the source and application of the payments.

Charitable contributions: To back up deductions for charitable contributions, taxpayers will need cancelled checks and other proof of payment showing the donee's name and the date and amount of the contribution. In addition, for contributions of $250 or more to a particular charity, a taxpayer must get a written acknowledgement from the charity; a cancelled check is not enough.

Contributions of property are also subject to special substantiation rules. In addition to proof of the donation (and an acknowledgement for gifts of $250 or more), the taxpayer must have documents showing a description of the property and the place the donation was made. Documentation should also include a description of the method used to determine the fair market value of the property, a signed copy of any appraisal reports, and a copy of any agreement with the charitable organization regarding the use of the property. For property valued at more than $5,000 (more than $10,000 for nonpublicly traded stock), a qualifying appraisal is required.

Dependent care credit: To claim a dependent care credit, a taxpayer must provide the name, address, and taxpayer identification number for any person or organization that is engaged to provide care for a child or dependent. Taxpayer can use Form W-10, Dependent Care Provider's Identification and Certification, to obtain this information from the care provider. This information should be retained with the taxpayer's tax records.

Mortgage interest: Taxpayers who pay interest on a home mortgage will generally receive a Form 1098, Mortgage Interest Statement, from their lender. However, some taxpayers with less conventional homes—a boat or RV that's used as a first or second home, for example—will not receive these statements. They should be alerted to obtain a summary of their annual loan interest from their lenders if the information does not appear on their final statements for the year.

Business expenses: Self-employed business owners must keep records to show the amount, date, and business purpose of day-to-day business purchases and payments for services. And, course, records must establish proof of payment. The IRS is particularly skeptical of T&E expenses—and it does not accept "guesstimates." Taxpayers must back up each expense with a diary showing the amount, time, place, and business purpose of each expense. In the case of entertainment, the business relationship of the guests must also be noted. Receipts are also required for all lodging expenses and for any other expenses over $75.

Do You Need to See Original Records? In some cases, you may ask your clients for original records—W-2s, 1099s, brokerage statements, and the like—rather than run the risk of errors by having them summarize the information. In other cases, however, you may rely on a client's summary—for example, of charitable deductions or T&E expenses. As a general rule, a preparer won't be subject to tax return preparer penalties if a return is based on information furnished by the client—even if that information turns out to be incorrect. However, there are situations where you should dig a little deeper. For example, while you don't have to examine a client's books and records to verify a client's information, the IRS says you must make reasonable inquiries if any information seems incorrect or incomplete. And, in cases where the tax law requires records to claim a deduction, you must get your client's assurance that those records exist. In all cases, your files should show that you asked the right questions.

February 2016

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To-Do List

- □ Send reminders to individual clients who have not returned tax preparation packets or scheduled appointments.
- □ Review pros and cons of S corporation election with eligible corporate clients.
- □ Remind calendar year corporate clients of March 15 income tax return filing deadline.

Key Compliance Dates

Monday, February 1 Furnish copies of Form W-2 for 2015 to employees.

Furnish information returns to retired employees (Form 1099-R) and noncorporate independent contractors who were paid $600 or more (Form 1099-MISC).

Employers file Form 941 for the fourth quarter of 2015 (if tax deposited in full and on time file by February 10).

Qualifying small employers file annual Form 944 for 2015 (in lieu of quarterly Form 941s).

Employers file Form 940 for 2015 (if tax was deposited in full and on time, file by February 10).

Individuals file individual income tax return for 2015 in lieu of January 15 estimated tax payment.

File Form 945 for 2015 to report income tax withheld on nonpayroll items.

Wednesday, February 3 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 27-29.

Friday, February 5 Semiweekly depositors deposit FICA and withheld income tax on wages paid on January 30-February 2.

Wednesday, February 10 Employers file Form 941 for the fourth quarter of 2015 if tax for the quarter was deposited in full and on time.

Tipped employees who received $20 or more in tips during January report them to the employer on Form 4070.

Employers file Form 940 for 2015 if tax for the year was deposited in full and on time.

Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 3-5.

Friday, February 12 Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 6-9.

Tuesday, February 16 Monthly depositors deposit FICA and withheld income tax for January.

Claims for 2015 exemption from income tax withholding expire; employers must begin withholding tax unless employee has submitted a new W-4 to continue exemption for 2016.

Thursday, February 18 Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 10-12.

Friday, February 19 Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 13-16.

Wednesday, February 24 Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 17-19.

Friday, February 26 Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 20-23.

Monday, February 29 File Form 1099 information returns (reports of payments of $600 or more, $10 dividend and interest payments) for 2015. Electronic filers see March 31.

Large food and beverage establishment employers file Form 8027, Employer's Annual Information Return of Tip Income and Allocated Tips; use Form 8027-T if reporting for more than one establishment. Electronic filers see March 31.

Employers file Copy A of all Forms W-2 issued for 2015 with the Social Security Administration (SSA). Paper Forms W-2 should be accompanied by a Form W-3. Electronic filers see March 31.

There's An App for That!

Can you imagine an application that will instantly fill out and file the hundreds of tax returns you prepare each year? Well... we aren't quite there yet. However, the IRS does offer a variety of online services and resources that can make the job easier.

e-Services for Tax Pros

e-Services is a suite of web-based products that allow tax professionals to conduct business with the IRS electronically. All tax professionals who wish to use e-services products must register online to create an individual electronic account. Products available through e-services include:

e-File Application. The IRS e-file Application can be completed online. You can also check the status of the application, as the IRS makes updates to the suitability check. The IRS e-file Application also enables you to update information when changes occur.

Transcript Delivery System. Eligible tax professionals can use this system to request and receive account transcripts, wage and income documents, tax return transcripts, and verification of non-filing letters for both individual and business clients. Tax pros must have a power of attorney on file before accessing a client's account.

TIN Matching. Taxpayer identification number (TIN) matching is available to payers and authorized agents who file any of six information returns subject to backup withholding (Forms 1099-B, INT, DIV, OID, PATR, and MISC). Interactive TIN Matching allows payers to match up to 25 payee TIN and name combinations against IRS records before submitting information returns. Bulk TIN Matching can match up to 100,000 TIN and name combos. To use TIN Matching, a payer must be listed in the IRS Payer Account File (PAF) database; the system is not available to payers that have not filed information returns in the past two years.

Electronic Subscription Services

The IRS offers number free electronic subscription services to keep you up to date on the latest tax developments. Offerings include:

Quick Alerts keep tax pros instantly up to date on events and developments that affect e-Filing, including processing delays, procedure changes, and e-File program updates.

Recent Developments Concerning Tax Products provides e-mail updates on tax forms, instructions, publications, and other tax products.

e-News for Payroll Professionals is an electronic mail service designed to provide information specifically affecting federal payroll tax returns.

IRS Guidewire notifies subscribers, by e-mail, when the IRS issues advance copies of tax guidance, such as regs, revenue rulings, revenue procedures, announcements, and notices.

e-News for Tax Professionals provides the latest news for the tax professional community, as well as links to resources on IRS.gov.

IRS Newsire subscribers receive news releases and other documents by e-mail as they are issued.

IRS Tax Tips subscribers receive tips about taxes by e-mail every business day during tax-filing season and periodically during the rest of the year.

Outreach Corner offers content and products that can be used in your own communication vehicles. Subscribers can access ready-to-use articles for print publications and articles, widgets, and podcasts for Web sites.

For a full listing of IRS online subscription resources and to subscribe go to http://www.irs.gov/uac/e-News-Subscriptions-2

New Media

And there is, in fact, an app for connecting to the IRS—as well as other IRS social media offerings.

IRS2Go. Pros with an Apple iPhone or iTouch can download the free IRS2Go app by visiting the iTunes app store. Pros with Android devices can visit the Google Play Store to download the app.

YouTube. IRS YouTube channels offer informative videos in English, American Sign Language, and other languages.

Twitter. IRS tweets include various tax-related announcements, news for tax professionals, and hiring initiatives.

Tumblr. The IRS Tumblr blog provides current tax information.

Facebook. The IRS Return Preparer Facebook page posts information for tax professionals.

Podcasts. Subscribe to IRS Podcasts on iTunes or download them from the IRS Multimedia Center.

Widgets. Post IRS widgets on your website or social media networks to help direct others to IRS.gov for complete details on a variety of topics. Get them and other tax products at IRS Marketing Express.

March 2016

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To-Do List

□ File extensions for individuals who have not met deadline for return preparation.

□ Remind individual clients of April 15 estimated tax payment.

□ File extensions for corporate clients that will not meet March 15 filing deadline.

Key Compliance Dates

Wednesday, March 2 Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 24-26.

Friday, March 4 Semiweekly depositors deposit FICA and withheld income tax on wages paid on February 27-March 1.

Wednesday, March 9 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 2-4.

Thursday, March 10 Tipped employees who received $20 or more in tips during February report them to the employer on Form 4070.

Friday, March 11 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 5-8.

Tuesday, March 15 Monthly depositors deposit FICA and withheld income tax for February. Calendar-year corporations file 2015 income tax return (Form 1120 for C corporations; 1120S for S corporations; alternatively, file for an automatic six-month extension.

Wednesday, March 16 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 9-11.

Friday, March 18 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 12-15.

Wednesday, March 23 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 18-18.

Friday, March 25 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 19-22.

Wednesday, March 30 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 23-25.

Thursday, March 31 Form 1099 information returns, Copy A of Form W-2, or Form 8027 for 2015 must be filed if filing electronically.

Notes

IRS Makes It Official: Taxpayers Have Rights

The Internal Revenue Service has announced the adoption of an official Taxpayer Bill of Rights. “[T]axpayer surveys conducted by my office have found that most taxpayers do not believe they have rights before the IRS and even fewer can name their rights,” said National Taxpayer Advocate Nina E.Olsen. “I believe the list of core taxpayer rights…will help taxpayers better understand their right in dealing with the tax system” [News Release 2014-72, 6/10/2014]. Culled from the thousands of pages in the Internal Revenue Code, like the U.S. Constitution’s Bill of Rights the Taxpayer Bill of Rights contains 10 provisions. The new and official Taxpayer Bill of Rights can be found in IRS Publication 1, Your Rights as a Taxpayer. A copy displayed in your office or handouts in your waiting room--especially at this time of year--may serve as a reminder to your clients that the tax system is not just a pay-up and shut-up proposition.

1. The Right to Be Informed

Taxpayers have the right to know what they need to do to comply with the tax laws. They are entitled to clear explanations of the law and IRS procedures in all tax forms, instructions, publications, notices, and correspondence. They have the right to be informed of IRS decisions about their tax accounts and to receive clear explanations of the outcomes.

2. The Right to Quality Service

Taxpayers have the right to receive prompt, courteous, and professional assistance in their dealings with the IRS, to be spoken to in a way they can easily understand, to receive clear and easily understandable communications from the IRS, and to have a way to file complaints about inadequate service.

3. The Right to Pay No More than the Correct Amount of Tax

Taxpayers have the right to pay only the amount of tax legally due, and to have the IRS apply all tax payments properly.

4. The Right to Challenge the IRS’s Position and Be Heard

Taxpayers have the right to raise objections and provide additional documentation in response to formal IRS actions or proposed actions, to expect that the IRS will consider their timely objections and documentation promptly and fairly, and to receive a response if the IRS does not agree with their position.

5. The Right to Appeal an IRS Decision in an Independent Forum

Taxpayers are entitled to a prompt and impartial administrative appeal of IRS actions and have the right to receive a written response explaining the Appeals Division’s decision. Taxpayers generally have the right to take their cases to court.

6. The Right to Finality

Taxpayers have the right to know the maximum amount of time they have to challenge the IRS’ position, as well as the maximum amount of time the IRS has to audit a particular tax year. Taxpayers have the right to know when the IRS has finished an audit.

7. The Right to Privacy

Taxpayers have the right to expect that any IRS inquiry, examination, or enforcement action will comply with the law and be no more intrusive than necessary, and will respect all due process rights, including search and seizure protections and a collection due process hearing.

8. The Right to Confidentiality

Taxpayers have the right to expect that any information they provide to the IRS will not be disclosed unless authorized by the taxpayer or by law. Taxpayers have the right to expect appropriate action will be taken against employees, return preparers, and others who wrongfully use or disclose taxpayer return information.

9. The Right to Retain Representation

Taxpayers have the right to retain an authorized representative of their choice to represent them in their dealings with the IRS. Taxpayers have the right to seek assistance from a Low Income Taxpayer Clinic if they cannot afford representation.

10. The Right to a Fair and Just Tax System, Including Access to the Taxpayer Advocate Service

Taxpayers have the right to expect the tax system to consider facts and circumstances that might affect their underlying liabilities, ability to pay, or ability to provide information timely. Taxpayers have the right to receive assistance from the Taxpayer Advocate Service if they are experiencing financial difficulty or if the IRS has not resolved their tax issues properly and timely through its normal channels.

April 2016

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To-Do List

□ File extensions for individual clients who will not meet April 15 filing deadline.

□ Conduct reviews of clients' prior year returns to determine need for amended returns.

Key Compliance Dates

Friday, April 1 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 26-29.

Wednesday, April 6 Semiweekly depositors deposit FICA and withheld income tax on wages paid on March 30-April 1.

Friday, April 8 Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 2-5.

Monday, April 11 Tipped employees who received $20 or more in tips during March report them to the employer on Form 4070.

Wednesday, April 13 Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 6-8.

Friday, April 15 Individuals file 2015 returns (Form 1040, Form 1040A, or Form 1040EZ); alternatively, file for an automatic six-month extension (Form 4868).

Partnerships file 2015 information return (Form 1065); alternatively, file for an automatic five-month extension (Form 7004).

Individuals and calendar-year corporations pay first installment of 2016 estimated tax.

Monthly depositors deposit FICA and withheld income tax for March.

Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 9-12.

Wednesday, April 20 Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 13-15.

Friday, April 22 Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 16-19.

Wednesday, April 27 Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 20-22.

Friday, April 29 Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 23-26.

Notes

What To Tell Clients About Amended Returns

At one time, a popular consumer financial magazine ran an annual feature in which accountants were asked to prepare a tax return for a hypothetical couple. And, year after year, no two practitioners calculated the “correct” tax liability. Moreover, the results they did come up with often varied by tens of thousands of dollars. True, the hypothetical returns they were asked to prepare were designed to be especially tricky. However, the fact of the matter is that mistakes can crop up even on run-of-the-mill returns.

At this time of year, tax return preparers frequently detect errors on prior years’ returns. For example, a cross-check of a client’s 2015 return against returns for prior years may reveal unreported income or a missed deduction for an earlier year. In addition, there will inevitably be clients who show up after their 2015 returns have been filed waving a misplaced 1099 or a stack of receipts for a deduction that was not claimed on the return.

And, of course, nobody’s perfect. There may be situations where mistakes were made in preparing a client’s return. For example, miscalculation of the holding period for an asset may have turned long-term gain into less favorably taxed short-term gain, or misapplication of a phase-out limit may have cost the client all or part of a deduction.

> **Practice Tip:** A review of returns for open years can be an enticing “value added” service for new clients. You’ll probably want to offer this service gratis in connection with preparation of the current year’s return. But, of course, you will want to charge a fee for correcting any errors you catch.

Preparer Responsibilities

In some cases, it may be tempting to let sleeping dogs lie, especially if correcting a return error will produce a negligible difference in a client’s tax for the year. However, Treasury Circular 230, the official code of conduct for practice before the IRS, requires a preparer to “advise the client promptly” of an error. The AICPA’s Statements on Responsibilities in Tax Practice (SRTP), which interprets and expands upon Circular 230, further provides that when informing a client of an error, a practitioner should recommend the proper measures to be taken. Moreover, the SRTP makes it clear that the duty to inform clients of a return error applies regardless of whether the preparer who caught the error actually prepared the return in question.

Some clients may be reluctant to correct a return error. In the case of underreporting, a client may want to play the odds and wait and see if the IRS picks up on the error. And, even if a correction will result in a refund, a client may believe that filing an amended return will prompt a full-scale IRS audit. In advising clients, you should point out that promptly correcting an underreporting error will reduce the amount of interest and penalties payable on the deficiency. On the other hand, clients should be advised not to pass up legitimate tax write-offs out of fear of the IRS. The IRS maintains that an amended return will not automatically trigger a minute inspection of a taxpayer’s return.

In any case, the decision whether to correct a tax return error ultimately rests with the client. According to the SRTP, a practitioner has no duty to inform the IRS of a return error and may do so only with the client’s permission “except where required by law.” On the other hand, the SRTP states that when a client refuses to correct an error that has more than an insignificant impact on his or her tax liability, a practitioner must “consider whether to withdraw from preparing the return and whether to continue a professional relationship with the client.” If a practitioner determines that it is not necessary to sever relations with the client, the SRTP emphasizes that the practitioner must take reasonable steps to ensure that the error is not repeated on the current year’s return.

A preparer’s financial liability for a tax return error is not clear cut. From the IRS’ point of view, any unpaid tax, interest, and penalties are the taxpayer’s responsibility, regardless of who made the error. However, an irate client who is advised of a mistake on his or her return may seek to hold the preparer financially responsible—and, of course, the client may object to the fee for preparing the return. To avoid disputes, many preparers use tax return engagement letters specifying the limits on the preparer’s liability for return errors.

On the flip side, a missed deduction or credit generally does not present a liability issue. In most cases, a client will be made whole when he or she receives a refund plus interest. This assumes, of course, that the error is corrected in a timely fashion. At least one court has held a practitioner liable for damages when he missed the deadline for filing an amended return claiming a refund. Therefore, it behooves a practitioner to act promptly once an error is detected—and to pay close attention to the requirements for filing amended returns.

May 2016

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Key Compliance Dates

Monday, May 2 Employers file Form 941 for the first quarter of 2016 (if tax for the quarter was deposited in full and on time file by May 10) Employers deposit federal unemployment tax owed through March if more than $500.

Wednesday, May 4 Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 27-29.

Friday, May 6 Semiweekly depositors deposit FICA and withheld income tax on wages paid on April 30-May3.

Tuesday, May 10 Tipped employees who received $20 or more in tips during April report them to the employer on Form 4070. Employers file Form 941 for the first quarter of 2016 if tax for the quarter was deposited in full and on time.

Wednesday, May 11 Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 4-6.

Friday, May 13 Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 7-10.

Monday, May 16 Monthly depositors deposit FICA and withheld income tax for April.

Wednesday, May 18 Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 11-13.

Friday, May 20 Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 14-17.

Wednesday, May 25 Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 18-20.

Friday, May 27 Semiweekly depositors deposit FICA and withheld income tax on wages paid on May 21-24.

To-Do List

□ Conduct post-season review.

□ Evaluate tax software.

□ Remind individual clients of June 15 estimated tax payment.

□ Alert clients who need to file amended returns.

Notes

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