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APRIL 2016

THANKS TO CLIENTS AND STAFF

"No one who achieves success does so without the help of others."
Alfred North Whitehead

We will celebrate the traditional end of tax season, April 15, 2016, with a weekend "off" for April 16th and April 17th. We will be open Monday, April 18, 2016, the legal last day of the 2016 filing season, to handle any last-minute problems. We will close for our traditional post-tax season holiday on Tuesday, April 19, 2016. We will honor our staff with an appreciation luncheon and close at noon on Friday, April 22, 2016. The Computer Center will be open on Tuesday, April 19, 2016 and will close at noon on Friday, April 22, 2016. We are indebted to our staff for their excellent performance and to our clients for the opportunity of working for them. To all we say – **THANK YOU!**

EXTENSIONS OF TIMES TO FILE AND PAY – FLOOD ZONE

Usually extensions of time to file require application to the tax authorities, and extensions of time to pay are not available. The recent flooding in northwest Louisiana has resulted in the declaration of a disaster zone covering, in addition to many other parishes, the parishes of Caddo, Bossier, Red River, Webster, DeSoto, Bienville, Claiborne, and Ouachita. Lincoln Parish is not included. The Internal Revenue Service has issued a notice declaring that all federal income tax returns and all federal income tax payments due on or after March 8, 2016 and on or before July 15, 2016 are automatically extended to July 15, 2016 without the necessity of a written application. Neither penalties nor interest will be charged for these automatic extensions if the returns are filed and payments are made by July 15, 2016. If, however, more time to file a return is required, an extension must be requested and payment made by July 15, 2016. The Louisiana Department of Revenue has also granted similar relief for income tax returns and income tax payments.

Although extensions are available without request, we believe that there is a strong likelihood that returns filed without specifically requested extensions will result in the necessity of writing multiple letters responding to federal and Louisiana assertions of penalties, interest, etc., which are not applicable. Accordingly, we are suggesting that taxpayers desiring additional time to file income tax returns continue with the usual routine request for automatic extensions available to all taxpayers.

In addition to individual and entity income tax returns, a variety of other federal and Louisiana business tax filings and payments are also subject to this filing and payment relief. Many of the Louisiana filings and payments are, however, extended to June 15th rather than to July 15th.

ADDITIONAL SALES TAX

Effective April 1, 2016, Louisiana has increased its tax on the retail sale, use, consumption, lease or rental of tangible personal property and upon the sale of certain services. This new tax is in addition to the taxes already levied and is effective under the current law until June 30, 2018. Most of the tax exemptions and exclusions applicable to the pre-April 1, 2016 tax are applicable to the add-on one-cent. In other words, it is not the "clean penny" discussed prior to the special legislative session. However, the detail exclusions and exemptions (more than 60) vary between the "old" and "new" taxes adding still further to the complexity of properly collecting the tax.

In addition to the sales tax changes, several changes effective for 2016 were made in the Louisiana income and franchise tax systems. Details of the Department of Revenue's interpretations of these new laws should be available within the next few weeks.

AFFAIRS IN ORDER?

With a few documents created now, all of us can make it easier on our families and heirs in the event of our sudden death or disability. Most of us realize that a will of our choosing is important, helpful, and usually easily accomplished. In a sense, we all have a will – if we don't write one, state law has one for us. For those with retirement plans and IRAs or who are insured by life insurance policies, current designation of beneficiary forms are necessary. The proceeds of IRAs, life insurance contracts, annuities, and other contractual benefits are paid based on the contract and are not subject to disposition by a will unless the succession is the named or default beneficiary.

In the event of incapacity, a durable power of attorney is helpful and might be required in many situations if a family member is to act for the incapacitated person. Failure to grant a durable power of attorney prior to the onset of incapacity will require the family to seek costly court action prior to the sale of real estate and possibly prior to completing other significant financial transactions.

Most of us are familiar with the above documents and understand their importance. A fourth document, a medical directive, commonly called a "living will," is sometimes significant but many times omitted in planning.

The preparation of a living will records the preferences of a person on life-sustaining procedures once that person is medically determined to be in a permanent vegetative state or terminally ill and unable to communicate medical preferences. A living will or a durable power of attorney designating medical direction functions to its holder can prevent discord and make life easier for the surviving family members. Accordingly, keeping your "affairs in order" should probably include a medical directive or living will, a durable power of attorney, current designation of beneficiary forms for IRAs and other contract benefits, etc., and a current will.

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Tax & Business Alert

APRIL 2016

GO, SAVE GREEN WITH SUSTAINABLE TAX BREAKS

Many people want to do something, however small, to contribute to a healthier environment. There are many ways to do so and, for some of them, you can even save a few tax dollars for your efforts.

Indeed, with the passage of the Protecting Americans from Tax Hikes Act of 2015 (the PATH Act) late last year, a couple of specific ways to go green and claim a tax break have been made permanent or extended. Let's take a closer look at each.

NOT DRIVING FOR DOLLARS

Air pollution is a problem in many areas of the country. Among the biggest contributors are vehicle emissions. So it follows that cutting down on the number of vehicles on the road can, in turn, diminish air pollution.

To help accomplish this, many people choose to commute to work via van pools or using public transportation. And, helpfully, the PATH Act is doing its part as well. The law made permanent the requirement that limits on the amounts that can be excluded from an employee's wages for income and payroll tax purposes be the same for both parking benefits and van pooling / mass transit benefits.

Before the PATH Act's parity provision, the monthly limit for 2015 was only $130 for van pooling / mass transit benefits. But, because of the new law, the 2015 monthly limit for these benefits was boosted to the $250 parking benefit limit and the 2016 limit is $255.

SPRUCING UP THE HOMESTEAD

Energy consumption can also have a negative impact on the environment and use up limited natural resources. Many homeowners want to reduce their energy consumption for environmental reasons or simply to cut their utility bills.

The PATH Act lends a helping hand here, too, by extending through 2016 the credit for purchases of residential energy property. This includes items such as:

- New high-efficiency heating and air conditioning systems,
- Qualifying forms of insulation,
- Energy-efficient exterior windows and doors, and
- High-efficiency water heaters and stoves that burn biomass fuel.

The provision allows a credit of 10% of eligible costs for energy-efficient insulation, windows and doors. A credit is also available for 100% of eligible costs for energy-efficient heating and cooling equipment and water heaters, up to a lifetime limit of $500 (with no more than $200 from windows and skylights).

DOING IT ALL

Going green *and* saving some green on your tax bill? Yes, you can do both. Van pooling or taking public transportation and improving your home's energy efficiency are two prime examples. Please contact us for more information about how to claim these tax breaks or identify other ways to save this year. ■

TRAINING DAY: REIMBURSING EMPLOYEES' EDUCATION EXPENSES

Naturally, most employee training occurs in-house. But area colleges and trade schools may also provide a great source of education in professional development. And if you reimburse employees for their education expenses at these institutions, you and your employees may be able to save valuable tax dollars.

OFFER A FRINGE BENEFIT

Payment of an employee's expenses usually results in taxable wages subject to income and payroll taxes. However, reimbursements and direct payments of job-related education costs are excludable from workers' wages as working condition fringe benefits. Furthermore, you can deduct these costs as employee education costs (as opposed to wages), so you don't have to withhold income tax or pay payroll taxes on them.

To qualify as a working condition fringe benefit, the education expenses must be ones that employees would be allowed to deduct as a business expense if they'd paid them directly and weren't reimbursed. Basically, this means the education must relate to the workers' occupations and not qualify them for new jobs. There's no ceiling on the amount your workers can receive tax-free, and you can classify education costs as not subject to payroll taxes if the IRS considers the expenses to be working condition fringe benefits.

ESTABLISH A PROGRAM

Another approach to reimbursing education costs in a tax-efficient manner is to establish a formal written educational assistance program. These programs can cover both job-related and non-job-related education. Assuming it meets eligibility requirements, such a program can allow employees to exclude from income up to $5,250 (or an unlimited amount if the education is job related) annually in education reimbursements for costs such as:

- Undergraduate or graduate-level tuition,
- Fees,
- Books, and
- Equipment and supplies.

The IRS, however, won't allow reimbursement of materials that employees can keep after the courses end (except for textbooks). You can deduct up to $5,250 (or an unlimited amount if the education is job related) of education reimbursements as an employee benefit expense. And you don't have to withhold income tax or pay payroll taxes on these reimbursements.

To pass muster with the IRS, such a program must avoid discrimination in favor of highly compensated workers, their spouses and their dependents, and it can't provide more than 5% of its total annual benefits to shareholders, owners and their dependents. In addition, you must provide reasonable notice about the program to all eligible employees that outlines the type and amount of assistance available to workers.

DISCOVER THE HIDDEN ADVANTAGE

Another "hidden" advantage to reimbursing education costs is attracting new hires and retaining them. The labor markets in many industries are competitive right now, so it's important not to overlook ways to differentiate yourself from other companies looking to hire from the same pool. Moreover, keeping an engaged, well-trained staff in place enables you to avoid constantly enduring the high costs of hiring.

Also bear in mind the "Millennial" perspective. Prospective employees between the ages of 18 and 35, so-called "Millennials," make up a significant portion of the labor market now. This generation has its own distinctive traits and preferences toward working — one of which is a need for ongoing challenges and education, particularly when it comes to technology.

KEEP THEM ON BOARD

If your company has employees who want to take their professional skill sets to the next level, don't let them go to a competitor to get there. By reimbursing education costs as a fringe benefit or setting up an educational assistance program, you can keep your staff well trained and evolving toward the future and save taxes, too. Feel free to contact us about how to ensure you'll enjoy the tax advantages of doing so. ■

COULD YOUR DEBT RELIEF TURN INTO A TAX DEFEAT?

Restructuring debt has become a common approach to personal financial management. But many people fail to realize that there's often a tax impact to debt relief. And if you don't anticipate it, a winning tax return may turn into a losing one.

LESS DEBT, MORE INCOME

Income tax applies to *all* forms of income — including what's referred to as "cancellation-of-debt" (COD) income. Think of it this way: If a creditor forgives a debt, you avoid the expense of making the payments, which increases your net income.

Debt forgiveness isn't the only way to generate a tax liability, though. You can have COD income if a creditor reduces the interest rate or gives you more time to pay. Calculating the amount of income can be complex but, essentially, by making it easier for you to repay the debt, the creditor confers a taxable economic benefit.

MORTGAGE MATTERS

You can also have COD income in connection with a mortgage foreclosure, including a short sale or deed in lieu of foreclosure. Here, the tax consequences depend on which of the following two categories the mortgage falls into:

1. Nonrecourse. Here the lender's sole remedy in the event of default is to take possession of the home. In other words, you're not personally liable if the foreclosure proceeds are less than your outstanding loan balance. Foreclosure on a nonrecourse mortgage doesn't produce COD income.

2. Recourse. This type of foreclosure can trigger COD tax liability if the lender forgives the portion of the loan that's not satisfied. In a short sale, the lender permits you to sell the property for less than the amount you owe and accepts the sale proceeds in satisfaction of your mortgage. A deed in lieu of foreclosure means you convey the property to the lender in satisfaction of your debt. In either case, if the lender agrees to cancel the excess debt, the transaction is treated like a foreclosure for tax purposes — that is, a recourse mortgage may generate COD income.

Keep in mind that COD income is taxable as ordinary income, even if the debt is related to long-term capital gains property. And, in some cases, foreclosure can trigger both COD income and a capital gain or loss (depending on your tax basis in the property and the property's market value).

EXCEPTIONS VS. EXCLUSIONS

Several types of canceled debt are considered nontaxable "exceptions" — for example, debt cancellation that's considered a gift (such as forgiveness of a family loan). Certain student loans are also considered exceptions — as long as they're canceled in exchange for the recipient's commitment to public service.

Other types of canceled debt qualify as "exclusions." For instance, homeowners can exclude up to $2 million in COD income in connection with qualified principal residence indebtedness. A recent tax law change extended this exclusion through 2016, modifying it to apply to mortgage forgiveness that occurs in 2017 as long as it's granted pursuant to a written agreement entered into in 2016. Other exclusions include certain canceled debts relating to bankruptcy and insolvency.

COMPLEX RULES

The rules applying to COD income are complex. So if you're planning to restructure your debt this year, let us help you manage the tax impact. ■

TAX CALENDAR

April 18

- Besides being the last day to file (or extend) your 2015 personal return and pay any tax that is due, 2016 first quarter estimated tax payments for individuals, trusts, and calendar-year corporations are due today. So are 2015 returns for trusts and calendar-year estates, partnerships, and LLCs, plus any final contribution you plan to make to an IRA or Education Savings Account for 2015. SEP and Keogh contributions are also due today if your return is not being extended.

June 15

- Second quarter estimated tax payments for individuals, trusts, and calendar-year corporations are due today.

A PRODUCT/SERVICES REMIX COULD GET YOUR SALES MOVING

If your company's sales results were a dance floor, how would it look? Are the numbers jumping off the page, dazzling you with their lively performances? Or are they slow, sluggish — perhaps even disappearing entirely? To keep the party moving, every business needs to regularly remix its line of products or services.

There are many potential causes of a sales slowdown. But these troubles aren't all bad — they can help you shape the sound of your revised offerings. Start with the obvious: Are your customers drifting away? Conduct market research to find out whether they still like what you're selling or if their needs have changed. Evolution is normal, so be ready to adjust your menu to keep pace.

Also look into how long you've been offering the same products or services, and whether you've saturated the market. Some things have enduring value, but demand for others can wane as new products take the spotlight. Regular evaluations can help you decide whether you should:

- Test a product or service in a different market or geographic area,
- "Reinvent" a product or service (for instance, by repackaging or renaming it), or
- Discontinue it.

Finally, don't ignore the economy — both national and local. Market conditions can influence the sales of even the strongest products or services. Try to bolster the strongest ones, but also consider discontinuing weak ones or adding new ones that reflect the strength of the local economy.

An effective remix of your products or services can turn a sad song into a happy tune. For help making the right tweaks, please give us a call. ■