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JUNE 2015

PHONE CALLS FROM THE IRS

Calls from criminals pretending to be Internal Revenue Service personnel are among the seemingly endless telephone scams being perpetrated on taxpayers. These criminals inform the taxpayers that they owe back taxes and then instruct the individuals to provide personal information or transfer money to them. The IRS does not attempt collection by telephone, and any collection call from someone purporting to be an IRS agent is a scam.

Unfortunately, however, the Internal Revenue Service does occasionally initiate contact with the taxpayers by telephone prior to sending a written notice to the taxpayer of the examination of the tax return. We encourage you to refuse to discuss your tax return or your business with any caller who professes to be an IRS agent. You have no way of knowing that you are, in fact, talking to an agent. In addition, an inadvertent offhand remark that an agent misinterprets could later cost considerable time and effort (and money) to overcome.

If an IRS agent appears without notice at your residence or place of business or if you receive a call from someone claiming to be an IRS agent who says that your return has been selected for examination, we suggest that you ask to be notified in writing and do not give the person any information. After receiving written notice, you should, of course, make every effort to cooperate. If you are to be represented in an examination, we urge you to call your representative immediately to allow him or her to schedule the appointment and handle all contact with the agent.

We encourage our tax clients, if contacted by the IRS, to contact us and to send us a copy of any written notice or request for information. Agents sometimes request information to which they are not entitled, and we might be able to help spare you some problems in the examination.

Remember that the Internal Revenue Service is entitled to only that information necessary to correctly determine your tax. That in itself might involve many gray areas, and a chance remark or the misinterpretation of a casual phone conversation could damage your position.

You should, of course, never share any personal, financial, or tax information with any unverified sources, especially those claiming to be an Internal Revenue Service Agent.

TAX-WISE ACCOUNTING FOR JOB-RELATED USE OF A VEHICLE

Employees are often required to use their personal vehicles for business purposes or to incur other business-related expenses in connection with their jobs. If the employer does not reimburse such expenses, the employee can deduct the expenses as a miscellaneous itemized deduction. Unfortunately, the deduction may be severely limited or even be of no benefit. First, only the aggregate amount of miscellaneous itemized deductions that exceeds two percent of adjusted gross income is included in the employee's total itemized deductions. Then, for 2015, total itemized deductions are further reduced by three percent of adjusted gross income in excess of $309,900 ($258,250 for married taxpayers filing separate returns).

(Continued on reverse)

There are two general types of employee expense reimbursement plans -- "nonaccountable" and "accountable."

Under a "nonaccountable" plan, the employee is generally not required to substantiate any expenses to the employer. Reimbursements received by the employee under such a plan are included in the employee's Form W-2 as taxable wages (subject to both income tax withholding and Social Security and Medicare taxes). The employee includes the actual expenses incurred as miscellaneous itemized deductions, which will be subject to the same limitations described above for unreimbursed expenses.

If employee vehicle or other expense reimbursements are received under an "accountable" plan, as defined below, the amounts received will not be included in the employee's Form W-2 and are not reportable by the employee as income. Since the reimbursements are not included in income, the employee cannot deduct the expenses except to the extent that they exceed the reimbursement. Because of the limitations on miscellaneous itemized deductions and the payroll reporting, as well as payroll tax cost associated with "nonaccountable" plans, an "accountable" plan for reimbursing employee business vehicle expenses is generally preferable for both the employee and the employer.

To qualify as an "accountable" plan, the plan must contain the following features:

1. The employee's expense must be incurred in connection with his services as an employee (i.e., no personal expense).
2. The employee must substantiate the expense to the employer within a reasonable period of time from when the expense is incurred. Substantiation of an expense within 60 days after it is paid or incurred is deemed reasonable.
3. The employer must require that any excess advance or reimbursement over the actual substantiated expense be returned within a reasonable period of time. Return of an unused advance within 120 days is likewise deemed reasonable.

An employee can satisfy the substantiation requirements for business vehicle expenses in two general ways. First, an employee can submit periodically to the employer a log of business miles driven. The expense is deemed substantiated to the extent of the standard mileage rate (57.5 cents per business mile for 2015). Second, an employee can submit documentation of actual vehicle expenses (gas, maintenance, insurance, depreciation, etc.) with support for the percentage of business use of the vehicle (e.g., a log showing both business and personal mileage). Any advance, allowance, or reimbursement paid to and retained by the employee over the substantiated amount will be treated as received under a "nonaccountable" plan as described above.

We will be happy to assist you or your business with your expense reimbursement plans.

Domestic Employers Requirements

In addition to the payroll tax reporting requirements mentioned in our May 2015 newsletter, household employers (excluding employers of certain companion sitters) are also required to follow the federal minimum wage law requiring pay of $7.25 per hour for each hour of a standard work week. Unlike some other states, Louisiana law does not require a minimum wage higher than the federal standard. This federal law also requires payment of overtime (at time-and-a-half) for each hour worked over forty hours in a seven-day work week. Federal law exempts, however, live-in employees from the overtime requirement. Louisiana, unlike most other states, does not require worker’s compensation insurance for household employees.

In summary, Louisiana household employers are required to file periodic (generally annual) payroll tax returns, pay the appropriate payroll taxes, pay minimum wage, and pay for overtime worked. Worker’s compensation insurance and other benefits are not required.

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Tax & Business Alert

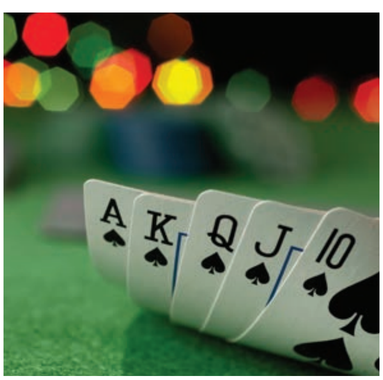
JUNE 2015

TAX RULES FOR GAMBLERS

If you've done some gambling, you may need to know about the applicable federal income tax rules. They can be summarized as follows.

You must report 100% of your wagering winnings as taxable income on your Form 1040. The value of complimentary goodies ("comps") provided by gambling establishments must also be included in taxable income because comps are considered gambling winnings. These amounts are subject to your regular federal income tax rate, which can be as high as 39.6%.

If you itemize deductions, you can write off wagering losses on Schedule A of Form 1040. However, allowable wagering losses are limited to your winnings for the year, and any excess losses cannot be carried over to future years. Also, out-of-pocket expenses for transportation, meals, lodging, and so forth do not count as gambling losses and, therefore, cannot be written off at all.



If you qualify as a professional gambler, your wagering winnings and losses are reported on Schedule C of Form 1040. However, deductions for wagering losses are limited to your winnings, and any excess wagering losses cannot be carried over to future years (same as for amateurs). The good news here is that you can also deduct travel expenses and other out-of-pocket costs of being a professional gambler.

In any case, you must adequately document wagering losses (and out-of-pocket nonwagering expenses if you are a professional) to claim a deduction. The government says you must compile the following information in a log or similar record:

1. The date and type of specific wager or wagering activity.
2. The name and address or location of the gambling establishment.
3. The names of other persons (if any) present with you at the gambling establishment (obviously this is not possible when the gambling occurs at a public venue such as a casino, race track, or bingo parlor).
4. The amount won or lost.

For example, the IRS says you can document income and losses from wagering on table games by recording the number of the table that you played and by keeping statements showing casino credit that was issued to you. For lotteries, your wins and losses can be documented by winning statements and unredeemed tickets.

Last but not least, be aware that amounts you win may have to be reported to you on IRS Form W-2G (Certain Gambling Winnings). In some cases, federal income tax may have to be withheld, too. Anytime a Form W-2G is issued to you, the IRS gets a copy. So the government will expect to see the winnings show up on your tax return.

Please call us if you have questions or want more information on the tax rules for gambling activities. ■

TAX TIPS FOR FARMERS

Farms include ranches, ranges, and orchards. Some raise livestock, poultry, or fish and others grow fruits or vegetables. Individuals report their farm income on Schedule F (Profit or Loss From Farming). If you own a farm, here are nine tax tips you should know about:

1. **Crop insurance.** Insurance payments from crop damage count as income. Generally, you should report these payments in the year you get them.
2. **Sale of items purchased for resale.** If you sold livestock or items that you bought for resale, you must report the sale. Your profit or loss is the difference between your selling price and your basis in the item. *Basis* is usually the cost of the item. Your cost may also include other amounts you paid, such as sales tax and freight.
3. **Weather-related sales.** Bad weather such as a drought or flood may force you to sell more livestock than you normally would in a year. If so, you may be able to delay reporting a gain from the sale of the extra animals.
4. **Farm expenses.** Farmers can deduct ordinary and necessary expenses they paid for their business. An *ordinary expense* is a common and accepted cost for that type of business. A *necessary expense* means a cost that is proper for that business.
5. **Employee wages and benefits.** You can deduct reasonable wages and other compensation you paid to your farm's full- and part-time workers, including reasonable wages or other compensation you pay to your spouse if a true employer-employee relationship exists between you and your spouse. You must withhold social security, Medicare, and income taxes from their wages. You can also deduct the cost of benefits you provide to your full- and part-time workers (including your spouse if a true employer-employee relationship exists), such as medical insurance or contributions to a retirement plan.

You may be able to average some or all of the current year's farm income by spreading it out over the past three years.

6. **Loan repayment.** You can only deduct the interest you paid on a loan if the loan is used for your farming business. You can't deduct interest you paid on a loan that you used for personal expenses.
7. **Net operating losses.** If your expenses are more than income for the year, you may have a net operating loss. You can carry that loss over to other years and deduct it. You may get a refund of part or all of the income tax you paid in prior years. You may also be able to lower your tax in future years. However, if you don't actively participate in the farm activity, your losses may be limited.
8. **Farm income averaging.** You may be able to average some or all of the current year's farm income by spreading it out over the past three years. This may cut your taxes if your farm income is high in the current year and low in one or more of the past three years.
9. **Tax credit or refund.** You may be able to claim a tax credit or refund of excise taxes you paid on fuel used on your farm for farming purposes.

And, of course, we are always willing to help. If you have questions or want to discuss your specific situation, please give us a call. ■

WHAT YOU SHOULD DO WITH AN IDENTITY VERIFICATION LETTER FROM THE IRS

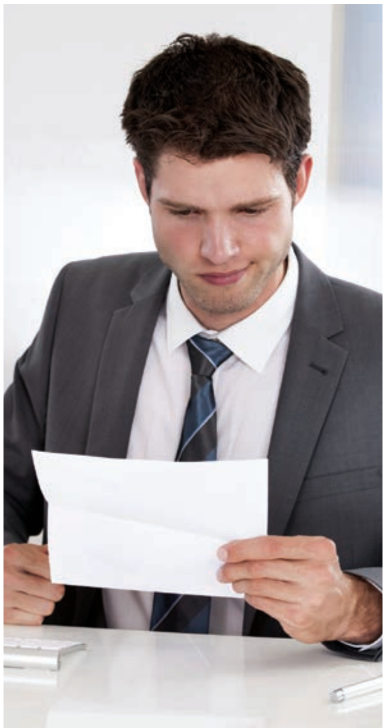
In its efforts to combat identity theft, the IRS is stopping suspicious tax returns that have indications of being identity theft, but contain a real taxpayer's name and/or social security number, and sending out Letter 5071C to request that the taxpayer verify his or her identity.

Letter 5071C is mailed through the U.S. Postal Service to the address on the return. It asks taxpayers to verify their identities in order for the IRS to complete processing of the returns if the taxpayers did file it or reject the returns if the taxpayers did not file it.

It is important to understand that the IRS does not request such information via email, nor will the IRS call you directly to ask this information without first sending you a Letter 5071C. The letter number can be found in the upper corner of the page.

Letter 5071C gives you two options to contact the IRS and confirm whether or not you filed the return: you can (1) use the *www.idverify.irs.gov* site or (2) call a toll-free number on the letter. However, the IRS says that, because of the high volume on its toll-free numbers, the IRS-sponsored website, *www.idverify.irs.gov*, is the safest, fastest option for taxpayers with web access.

Before accessing the website, be sure to have your prior year and current year tax returns available, including supporting documents, such as Forms W-2 and 1099. You will be asked a series of questions that only the real taxpayer can answer.



Once your identity is verified, you can confirm whether or not you filed the return in question. If you did not file the return, the IRS will take steps at that time to assist you. If you did file the return, it will take approximately six weeks to process it and issue a refund.

You should always be aware of tax scams, efforts to solicit personally identifiable information, and IRS impersonations. However, *www.idverify.irs.gov* is a secure, IRS-supported site that allows taxpayers to verify their identities quickly and safely. *IRS.gov* is the official IRS website. Always look for a URL ending with ".gov" — not ".com," ".org," ".net," or other nongovernmental URLs. ■

DONATING A LIFE INSURANCE POLICY TO CHARITY

A number of charities now ask their donors to consider donating life insurance policies rather than (or in addition to) cash in order to make substantially larger gifts than would otherwise be possible. The advantage to donors is that they can make a sizable gift with relatively little up-front cash (or even no cash, if an existing policy is donated). The fact that a charity may have to wait many years before receiving a payoff from the gift is typically not a problem, because charities normally earmark such gifts for their endowment or long-term building funds.

Of course, good reasons may exist for keeping the policy in force (such as to provide liquidity for a taxable estate or to meet the continuing needs of a surviving spouse or disabled child). Still, for individuals with both excess life insurance and a charitable intent, the donation of a life insurance policy may make sense.

If handled correctly, a life insurance policy donation can net the donor a charitable deduction for the value of the policy. A charitable deduction is also available for any cash contributed in future years to continue paying the premiums on a policy that was not fully paid up at the time it was donated. However, if handled incorrectly, no deduction is allowed. For this reason, we encourage you to contact us if you are considering donating a life insurance policy. We can help ensure that you receive the expected income or transfer tax deduction and that the contribution works as planned. ■

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2015 HSA AMOUNTS

Health savings accounts (HSAs) were created as a tax-favored framework to provide health care benefits mainly for small business owners, the self-employed, and employees of small- to medium-sized companies.

The tax benefits of HSAs are quite favorable and substantial. Eligible individuals can make tax-deductible (as an adjustment to AGI) contributions into HSA accounts. The funds in the account may be invested (somewhat like an IRA), so there is an opportunity for growth. The earnings inside the HSA are free from federal income tax, and funds withdrawn to pay eligible health care costs are tax free.

An HSA is a tax-exempt trust or custodial account established exclusively for paying qualified medical expenses of the participant who, for the months for which contributions are made to an HSA, is covered under a high-deductible health plan. Consequently, an HSA is not insurance; it is an account, which must be opened with a bank, brokerage firm, or other provider (i.e., insurance company). It is therefore different from a flexible spending account in that it involves an outside provider serving as a custodian or trustee.

The 2015 maximum contribution and deduction for individual self-only coverage under a high-deductible plan is $3,350, while the comparable amount for family coverage is $6,650. Individuals age 55 or older by the end of 2015 are allowed additional contributions and deductions of $1,000. However, when an individual enrolls in Medicare, contributions cannot be made to an HSA.

For 2015, a *high-deductible health plan* is defined as a health plan with an annual deductible that is not less than $1,300 for self-only coverage and $2,600 for family coverage, and the annual out-of-pocket expenses (including deductibles and copayments, but not premiums) must not exceed $6,450 for self-only coverage or $12,900 for family coverage. ■