

COLE, EVANS & PETERSON

CERTIFIED PUBLIC ACCOUNTANTS

M. ALTON EVANS, JR.
PARTNER EMERITUS

FIFTH FLOOR TRAVIS PLACE

AUSTIN G. ROBERTSON, JR., C.P.A.
OF COUNSEL

624 TRAVIS STREET

SHREVEPORT, LOUISIANA 71101-3012

www.cepcpa.com

TELEPHONE (318) 222-8367
TELECOPIER (318) 425-4101

MAILING ADDRESS:

P. O. DRAWER 1768
SHREVEPORT, LOUISIANA 71166-1768

WILLIAM JEFFERSON COLE, C.P.A.
CAROL T. BARNES, C.P.A.
C. WILLIAM GERARDY, JR., C.P.A.
BARRY S. SHIPP, C.P.A.
STEVEN W. HEDGEPEETH, C.P.A.
STEVEN R. BAYER, C.P.A.
TIMOTHY R. DURR, C.P.A.
BAILEY B. BAYNHAM, C.P.A.
ROBERT A. BUSBY, C.P.A.
ANNE-MARIE COLE, C.P.A.
TIMOTHY W. BORST, C.P.A.
ERIC D. SMITH, C.P.A.
KYLE S. DOBBINS, C.P.A.
MATTHEW R. HAHN, C.P.A.
FAYE D. CAMPBELL, C.P.A.

JOHN A. CASKEY, C.P.A.
J. AMY HEMMINGS, C.P.A.
LINDA K. BIBLE, C.P.A.
KATHRYN THAXTON GRAY, C.P.A.
JANA JOHNSTON COX, C.P.A.
KELLY B. NELSON, C.P.A.
GEORGE D. FAUBER III, C.P.A.
ANDREW K. WILHITE, C.P.A.
R. SCOTT MOORE, C.P.A.

JANUARY 2015

OBAMACARE PENALTY TAX

On 2014 returns, Obamacare requires taxpayers to either (1) indicate that the taxpayer, spouse, and all dependents were covered by "minimum essential coverage" health insurance throughout 2014, (2) claim an exemption from the 2014 health insurance coverage requirement, or (3) make a "shared responsibility payment" (penalty tax) with the tax return.

If you and your family had health insurance

coverage for the entire year (with no federal premium subsidy), that is all your tax return preparer needs to know. If, however, you and your family were covered for only part of the year, were exempt from the otherwise required coverage, or received a premium subsidy, you will need to furnish your tax preparer with detailed information about your coverage or exemptions, including any Forms 1095-A, 1095-B, or 1095-C that you received.

FINALLY!

(TAX LAW FOR 2014)

President Obama has signed legislation extending a number of tax breaks that had expired at the end of 2013. For many individuals and businesses, these deductions and credits prevent tax increases for 2014. Below are some of the more significant provisions in the extender package.

Businesses

First-year ("bonus") depreciation for qualified property. For qualifying property acquired and placed in service before January 1, 2015, businesses may take advantage of 50% first-year "bonus" depreciation. This rule allows businesses to deduct up to half the cost of qualifying property first placed in service in 2014. Qualifying property includes most machinery, equipment, or other tangible personal property with a recovery period of 20 years or less, certain leasehold improvement property, and most computer software.

Increased Section 179 expensing. Congress has substantially increased the amount of the allowable expense deduction for Section 179 property. Previously, businesses were allowed to expense up to \$25,000 of qualifying Section 179 property placed in service for the 2014 tax year, with that limit subject to

further reduction once the amount placed in service exceeded \$200,000. Under the new extender legislation, these limits are restored to their previous levels of \$500,000 and \$2,000,000, respectively.

Individuals

State and Local Sales Tax Deduction. Individuals who itemize their deductions may choose to deduct state and local sales taxes instead of state and local income taxes. This provision may help taxpayers who purchased big-ticket items, such as automobiles, in 2014, as well as taxpayers in states with a sales tax but no state income tax.

Nontaxable IRA Transfers to Charities. Favorable tax treatment continues to be available for those taxpayers age 70½ or older who make direct transfers (of up to \$100,000) from their individual retirement accounts (IRAs) to qualifying charities. If requirements are met, these contributions will be excluded from income and still count toward the taxpayer's required minimum distributions.

Higher Education Expenses. Eligible individuals may continue to deduct (maximum of either \$4,000 or \$2,000, depending on income)

(Continued on reverse)

qualified tuition and related expenses of the taxpayer, his/her spouse, or dependents as an "above-the-line" deduction.

Premiums for mortgage insurance deductible as qualified residence interest. Taxpayers may continue to deduct premiums paid for qualified mortgage insurance as qualified residence interest, provided

INFORMATION REPORTING – DUE JANUARY 31

The requirements for information reporting of payments continue to increase in complexity and penalty potential. The most common information returns required of taxpayers are Forms W-2 for wages paid and Forms 1099 for other payments.

The penalty for failure to file these returns timely with correct information is generally \$50 per statement, up to \$250,000 for any calendar year. Also, there is an additional \$50 penalty (with a \$100,000 maximum) for failure to furnish timely and correct information statements to the payees or for failure to include the taxpayer identification number on the statement. If, however, the failure to provide a correct return to a payee is due to intentional disregard of the filing requirement, the penalty is \$100 per return or, if greater, up to 10 percent of the aggregate amount of the items required to be reported with no maximum. Louisiana law also provides for penalties of \$5 per statement up to a maximum of \$7,500 for the late filing of Forms W-2.

Businesses are required to report on Form 1099 payments to all recipients of \$10 or more of interest, dividends, and royalties. Payments to unincorporated payees of \$600 or more of rents, fees, commissions, and prizes must also be reported. The exemption from reporting payments to corporations, however, does not apply to payments for legal services. All attorneys' fees of \$600 or more paid in the course of a trade or business are reportable in box 7 of Form 1099-MISC. In addition, if a payment is made to an attorney in connection with legal services and the attorney's fee cannot be determined, the total amount paid (gross proceeds) must be reported in box 14. Retirement plans are required to report all payments to beneficiaries on Form 1099-R.

Nominee Reports—Even taxpayers not involved in a business might be required to file information returns if involved in joint investments. For convenience in the joint operation of real estate or to obtain a higher rate of income, taxpayers sometimes

that their adjusted gross income does not exceed certain levels.

The late Congressional action on tax law for 2014 and the resulting lack of 2014 tax forms will make for a more difficult, compressed tax filing season. Nevertheless, in this case, we believe late and little action beats no action at all.

invest in interest-bearing bank accounts or stocks and bonds jointly with persons other than their spouses. In such cases, the payer of the income on the investment frequently obtains only one social security number and reports to the IRS all of the income as having been paid to that one taxpayer.

The law recognizes that income paid to a taxpayer is not necessarily the income of that taxpayer (the nominee) and requires that the nominee issue Forms 1099 to the other income owners. If the nominee does not file the second Form 1099 with the Internal Revenue Service timely, the nominee is subject to the penalties for failure to file timely a correct Form 1099. In addition, the nominee might receive a tax bill (based on all of the payments being included in taxable income) or even be audited because records of income paid to the nominee do not match the amounts included in the nominee taxpayer's return.

Information for 2014 returns must be generally furnished to the recipients by February 2, 2015 and filed with the Internal Revenue Service by March 2 (March 31, if filed electronically).

Electronic/Magnetic Media Reporting—Generally, a taxpayer who is required to file 250 or more information returns (1099, 1098, W-2, etc.) must submit the information to the IRS electronically or on magnetic media. The Louisiana Department of Revenue also requires that employers who have 250 or more employees file the state copy of Form W-2 on magnetic media. If a taxpayer fails to file returns on magnetic media when required to do so, the "failure to file" penalties described above apply to the number of returns in excess of 250.

If it is possible that you are required to file returns on magnetic media and have not done so in the past, we suggest that you contact your tax adviser now to determine and prepare for the magnetic media filing requirements.

2015 LIMITATION CHANGES

Many tax or regulatory limitations change on a calendar year basis. Here is a summary of some of the major 2015 limitations with 2014 for comparison.

	2015	2014
Current Earnings Allowed Before Social Security Benefits Reduction:		
Worker Below Full Retirement Age	\$ 15,720	\$ 15,480
Worker Full Retirement Age and Above <i>(Full Retirement Age 66 for Those Born in 1943 through 1954)</i>	- No Change - Unlimited	Unlimited
Social Security Taxes:		
<i>Old Age, Survivors, and Disability Insurance Income</i>		
<i>Portion of Tax:</i>		
Maximum Base for Tax	\$ 118,500	\$ 117,000
Tax Rate (Employee and Employer)	- No Change - 6.20%	6.20%
Tax Rate (Self-employed)	- No Change - 12.40%	12.40%
Maximum Tax (Employee)	\$ 7,347	\$ 7,254
Maximum Tax (Self-employed)	\$ 14,694	\$ 14,508
<i>Medicare Portion of the Tax:</i>		
Tax Rate (Employee and Employer)	- No Change - 1.45%	1.45%
Tax Rate (Self Employed)	- No Change - 2.90%	2.90%
Tax Rate (Employee and Self Employed) – Earnings in Excess of \$200,000 (\$250,000 Joint Return)	0.9%	0.9%
Maximum Base and Maximum Tax	- No Change - Unlimited	Unlimited
Louisiana Unemployment Tax:		
Maximum Base for Tax	- No Change - \$ 7,700	\$ 7,700
Auto Standard Mileage Deduction:		
Business Use	57.5¢	56.0¢
Use for a Charitable Organization	- No Change - 14¢	14¢
Use for Medical or Moving	23¢	23.5¢
401(k) Maximum Elective Deferral:		
Below Age 50	\$ 18,000	\$ 17,500
Age 50 or Above	\$ 24,000	\$ 23,000
Maximum Contribution to Defined Contribution Retirement Plan:		
General Limit – All Plans	\$ 53,000	\$ 52,000
With 401(k) Feature (Age 50 and over)	\$ 59,000	\$ 57,500
Individual Retirement Account Contribution (IRAs):		
Below Age 50	- No Change - \$ 5,500	\$ 5,500
Age 50 or Above	- No Change - \$ 6,500	\$ 6,500
SIMPLE IRA Maximum Deferral:		
Below Age 50	\$ 12,500	\$ 12,000
Age 50 or Above	\$ 15,500	\$ 14,500
Maximum Sec. 179 Deduction of Certain Depreciable Property	\$ 25,000	\$ 500,000
Annual Gift Tax Exclusion Per Donee	- No Change - \$ 14,000	\$ 14,000

Cole, Evans & Peterson, CPAs

www.cepcpa.com

624 Travis Street

Shreveport, Louisiana 71101

(318) 222-8367

Tax & Business Alert

JANUARY 2015

TAXABILITY OF REWARDS PROGRAMS

For anyone who spends a lot of time traveling by air for business purposes, one of the nice things that typically occurs because of all of that travel is frequent flyer miles. Even better, about 14 years ago the IRS addressed the controversial question of what happens tax-wise if someone earns those miles (from air travel, rental cars, hotels, etc.) on trips paid for by their company, but uses them for personal purposes. Happily, the IRS said it wasn't going to assert that someone has taxable income merely because they personally benefited from frequent flyer miles or other in-kind promotional benefits resulting from their business or official travel.

That all sounds good and seemed like the end of the matter—until a recent Tax Court decision said a taxpayer, who cashed in points to purchase a plane ticket, was taxed on the value of the ticket. What happened?

REWARDS THAT WEREN'T SO FREE

In the recent court decision, the taxpayer opened a bank account with a large financial institution and was awarded enough points because of this to earn an airline ticket. He cashed in the points, the bank acquired the ticket for him (apparently spending \$668 in the process), and at the end of the year, sent him a Form 1099-MISC reporting the \$668 as income to him. When he ignored the 1099, failed to report the income, and had a couple of other problems with his return, he and the IRS ended up in Tax Court arguing over whether the ticket should be taxable to him.

The IRS's position was that, of course, it's taxable. After all, he received a Form 1099 reporting it as income. The taxpayer's position was basically that he didn't remember receiving the points or the ticket—thus, nothing should be taxed to him.

The Tax Court took a more methodical approach to its conclusion, noting that gross (taxable) income includes all income from whatever source, unless otherwise excluded. It also acknowledged (without challenging) the IRS position from 2002 regarding points or miles earned from business travel and used personally. However, its view was that the current taxpayer's situation was different.



Instead of the taxpayer receiving miles or points due to purchases that he had made (which would effectively make what he received nontaxable purchase price adjustments), he received an award for making a deposit with a bank or leaving funds with the bank for some period of time. This, to the Court, looked similar to interest and, thus, it agreed with the IRS that the \$668 was taxable income.

CONCLUSION

What's the takeaway value of this case? A couple of key points: First, although probably no one was looking for it, it's nice to have the Tax Court's support of the IRS position on business miles used for personal purposes. Secondly, purchase rebates and awards are different. The former should be nontaxable (whether from credit card companies, airlines, hotels, rental car companies, or somewhere else), while the latter, even if you don't receive a Form 1099, are generally going to be taxable. ■

RETIREMENT CONTRIBUTION LIMITATIONS FOR 2015

The IRS has announced cost-of-living adjustments affecting the dollar limitations for retirement plan contributions. Several of the limitations are higher for 2015 because the increase in the cost-of-living index met the statutory threshold. However, some limitations did not meet that threshold and remain unchanged from 2015.

The elective deferral (contribution) limit for employees who participate in 401(k), 403(b), and most 457 plans, and the federal government's Thrift Savings Plan increased from \$17,500 in 2014 to \$18,000 in 2015. The catch-up contribution limit for those age 50 and over increased from \$5,500 in 2014 to \$6,000 in 2015.

The contribution limit for both Roth and traditional IRAs remains unchanged. You can contribute up to \$5,500 (\$6,500 if you are age 50 or older by year-end) to your IRA in 2015 if certain conditions are met (i.e., sufficient earned income). For married couples, the combined contribution limits are \$11,000 (\$5,500 each) and \$13,000 (\$6,500 each if both are age 50 by

year-end) when a joint return is filed, provided one or both spouses had at least that much earned income.

Keep in mind that contributions to traditional IRAs may be tax-deductible, subject to specific limitations that increase for 2015. When you establish and contribute to a Roth IRA, contributions are not deductible, but withdrawals are tax-free when specific requirements are satisfied. In addition, there are no mandatory distribution rules at age 70½ with a Roth IRA, and you can continue to make contributions past age 70½ if you meet the earned income requirement.

The 2015 limitation for SIMPLE retirement accounts increased \$500 to \$12,500. The SIMPLE catch-up contribution for those age 50 by year-end also increased by \$500 to \$3,000.

Finally, the 2015 contribution limit for profit-sharing, SEP, and money purchase plans is the lesser of (1) 25% of the employee's compensation—limited to \$265,000, an increase of \$5,000 from 2014; or (2) \$53,000, an increase of \$1,000 from 2014. ■

TAX CALENDAR

January 15

- Individual taxpayers' final 2014 estimated tax payment is due unless Form 1040 is filed by February 2, 2015, and any tax due is paid with the return.

February 2

- Most employers must file Form 941 (Employer's Quarterly Federal Tax Return) to report Medicare, social security, and income taxes withheld in the fourth quarter of 2014. If your tax liability is less than \$2,500, you can pay it in full with a timely filed return. If you deposited the tax for the quarter in full and on time, you have until February 10 to file the return. Employers who have an estimated annual employment tax liability of \$1,000 or less may be eligible to file Form 944 (Employer's Annual Federal Tax Return).
- Give your employees their copies of Form W-2 for 2014. If an employee agreed to receive Form W-2 electronically, have it posted on the website and notify the employee.
- Give annual information statements to recipients of certain payments you made during 2014. You can use the appropriate version of Form 1099 or other information return. Form 1099 can be filed electronically with the consent of the recipient.
- File Form 940 [Employer's Annual Federal Unemployment (FUTA) Tax Return] for 2014. If your undeposited tax is \$500 or less, you can either pay it with your return or deposit it. If it is more than \$500, you must deposit it. However, if you deposited the tax for the year in full and on time, you have until February 10 to file the return.

- File Form 945 (Annual Return of Withheld Federal Income Tax) for 2014 to report income tax withheld on all nonpayroll items, including backup withholding and withholding on pensions, annuities, IRAs, etc. If your tax liability is less than \$2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 11 to file the return.
- File Form 943 (Employer's Annual Federal Tax Return for Agricultural Employees) to report social security and Medicare taxes and withheld income tax for 2014. If your tax liability is less than \$2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 10 to file the return.

March 2

- The government's copy of Form 1099 series returns (along with the appropriate transmittal form) should be sent in by today. However, if these forms will be filed electronically, the due date is extended to March 31.
- The government's copy of Form W-2 series returns (along with the appropriate transmittal Form W-3) should be sent in by today. However, if these forms will be filed electronically, the due date is extended to March 31.

March 16

- 2014 income tax returns must be filed or extended for calendar-year corporations. If the return is not extended, this is also the last day for calendar-year corporations to make 2014 contributions to pension and profit-sharing plans.

IRS GRANTS TAX RELIEF TO DROUGHT-STRICKEN FARMERS AND RANCHERS

If you're a farmer or rancher and drought forced you to sell your livestock, special IRS tax relief may help you.

The IRS has extended the time to replace livestock that farmers were forced to sell due to drought.

If you're eligible, this may help you defer tax on any gains you received from the forced sales. The relief applies to all or part of 30 states affected by drought.

Here are several points you should know about this relief:

- If the drought caused you to sell more livestock than usual, you may be able to defer tax on the extra gains from those sales.
- You generally must replace the livestock within a four-year period. The IRS has the authority to extend the period if the drought continues. For this reason, the IRS has added one more year to the replacement period in 30 states.
- The one-year extension of time generally applies to certain sales due to drought.

- If you are eligible, your gains on sales of livestock that you held for draft, dairy, or breeding purposes apply.
- Sales of other livestock, such as those you raised for slaughter or held for sporting purposes and poultry, are not eligible.
- The IRS relief applies to farms in areas suffering exceptional, extreme, or severe drought conditions. The National Drought Mitigation Center has listed all or parts of 30 states that qualify for relief. Any county that is contiguous to a county that is on the NDMC's list also qualifies.
- This extension immediately impacts drought sales that occurred during 2010.
- However, the IRS has granted previous extensions that affect some of these localities. This means that some drought sales before 2010 are also affected. The IRS will grant additional extensions if severe drought conditions persist.

Please give us a call if you would like more information. ■

DEDUCTING LOCAL LODGING EXPENSES

Generally, personal, living, or family expenses, such as the costs of lodging, are not deductible unless the taxpayer is traveling away from home on business. However, thanks to recently finalized IRS regulations, local lodging expenses may be a deductible business expense if certain conditions are met.



An individual's local lodging expenses can be deducted as business expenses if the applicable facts and circumstances dictate that such treatment is appropriate

and the lodging is not lavish or extravagant, or primarily to provide the individual with a social or personal benefit. If paid by an employer, the expense can be treated as a tax-free working condition fringe benefit (WCFB) for the employee. The employer can deduct the cost of WCFBs.

Safe Harbor Rule. IRS regulations provide a safe-harbor rule where local lodging expenses are automatically treated as ordinary and necessary business expenses if all of the following conditions are met:

1. The lodging is necessary for the individual to participate fully in or be available for a bona fide business meeting, conference, training activity, or other business function.

2. The lodging is for a period no longer than five calendar days and does not occur more frequently than once per calendar quarter.
3. In the case of an employee, the employer requires the employee to remain at the activity or function overnight.
4. The lodging is not lavish or extravagant under the circumstances and does not provide any significant element of personal pleasure, recreation, or benefit.

EXAMPLE: TAX-FAVORED TREATMENT ALLOWED FOR EMPLOYEES.

Alpha Corporation puts on periodic employee training sessions at a hotel near its main office. Alpha requires all attending employees, including employees from the local area, to remain at the hotel overnight for the bona fide business purpose of maximizing the effectiveness of the training sessions.

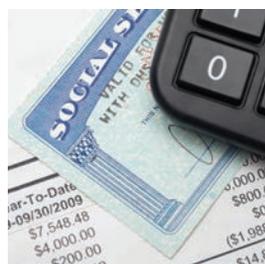
If Alpha directly pays the lodging costs for attending employees and the lodging is not lavish, the costs qualify as tax-free WCFBs for the attending employees, including those who live in the local area, and Alpha can deduct the costs as business expenses. ■

SOCIAL SECURITY AND MEDICARE AMOUNTS FOR 2015

The annual inflation adjustments have also impacted the various social security amounts and thresholds for 2015.

The social security wage base, for computing the social security tax (OASDI only), increases to \$118,500 in 2015, up from \$117,000 for 2014. There is no taxable earnings limit for Medicare (HI only) contributions. However, there is a 0.9% Medicare surtax that is imposed on wages and self-employment (SE) income in excess of the modified adjusted gross income (MAGI) threshold amounts of \$250,000 for joint filers, \$125,000 for married separate filers, and \$200,000 for all other taxpayers. The MAGI thresholds are not adjusted for inflation. The surtax does not apply to the employer portion of the tax.

For social security beneficiaries under the full retirement age, the annual exempt amount increases to \$15,720 in 2015, up from \$15,480 in 2014. These beneficiaries will be subject to a \$1 reduction in benefits for each \$2 they earn in excess of \$15,720 in 2015. However,



in the year beneficiaries reach their full retirement age (FRA), earnings above a different annual exemption amount (\$41,880 in 2015, up from \$41,400 in 2014) are subject to \$1 reduction in benefits for each \$3 earned over this exempt amount. Social security benefits are not reduced by earned income beginning with the month the beneficiary reaches FRA. But remember, social security benefits received may be subject to federal income tax.

The Social Security Administration estimates the average retired worker will receive \$1,328 monthly in 2015. The average monthly benefit for an aged couple where both are receiving monthly benefits is \$2,176. These amounts reflect a 1.7% cost of living adjustment (COLA).

The maximum 2015 social security benefit for a worker retiring at FRA is \$2,663 per month, up from \$2,642 in 2014. ■