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JANUARY 2016

MADISON CORRELL
NEW CPA

We were very pleased to learn that Madison Correll has successfully completed the CPA exam. Madison joined the firm in August 2014 after having graduated from Louisiana Tech University. Notably, Madison passed the CPA exam on her first attempt. We are very happy with her in her success and feel very fortunate to have her services.

ARE PENALTIES THE NEW REVENUE RAISERS?

There was a time, not so many years ago, when penalties were provided to encourage compliance with the law and bore a close relationship to the damage done to the Government by the failure to comply. We are not sure such is the case now as penalties are being rapidly increased, frequently beyond all correlation to the perceived damage done by non-compliance. We feel compelled to mention the new penalties applicable for failure to file correct Forms 1099 by the due date:

- $50 per information return if correctly filed late, but not more than 30 days after the due date. Maximum penalty $500,000 per year ($175,000 for small businesses).
- $100 per information return if correctly filed more than 30 days after the due date but by August 1. Maximum penalty $1,500,000 per year ($500,000 for small businesses).
- $250 per information return if filed after August 1 or for failure to file the required returns. Maximum penalty $3,000,000 per year ($1,000,000 for small businesses).
- $500 per information return with no maximum for intentional disregard of the filing requirements.

Separate penalties in the same amounts also apply for failure to furnish correct payee statements. The penalty for intentional disregard of the requirements to furnish a correct payee statement is $500 per return with no maximum.

Given the severity of these penalties, those who are required to file information returns should make every effort to file them accurately and timely, and furnish them to the payees.

NEW TAX LAW FOR 2015 AND BEYOND

Just before recessing for the holidays, the House and Senate passed the Protecting Americans from Tax Hikes Act of 2015 (PATH Act). President Obama is expected to sign the Bill as soon as it reaches the White House. This Act does more than the typical tax extenders legislation seen in prior years in that it makes permanent over 20 key tax provisions, including Section 179 expensing and the American Opportunity Tax Credit. In addition, many extenders have been enhanced, and some have been extended for five years and others for two. Below are some of the more significant provisions in the extender package.

Businesses

Section 179 Expensing – Permanent. Congress has restored the Code Section 179 Expensing limit to $500,000 with a $2 million overall

(Continued on reverse)

investment limit before phase-out for 2015 and beyond. Prior to the Act, the limits for 2015 were $25,000 with an investment limit of $200,000.

First Year ("Bonus") Depreciation for Qualified Property – Five-year Extension. The Act extends bonus depreciation (additional first-year depreciation) for qualifying property acquired and placed in service before January 1, 2016. This rule allows businesses to deduct up to half the cost of qualifying property first placed in service in 2015. Qualifying property includes most new machinery, equipment, or other tangible personal property with a recovery period of 20 years or less, certain leasehold improvement property, and most computer software. Bonus depreciation will phase-out through 2019. For 2015 through 2017, the bonus is 50 percent; 40 percent in 2018; and 30 percent in 2019.

Individuals

State and Local Sales Tax Deduction – Permanent. Individuals who itemize their deductions may choose to deduct state and local sales taxes instead of state and local income taxes.

American Opportunity Tax Credit – Permanent. The American Opportunity Tax Credit, an enhanced version of the Hope Education Credit, has been made permanent with an increased level of $2,500 with adjusted gross income phase-outs of $80,000 (single) and $160,000 (married filing jointly).

Earned Income Credit – Permanent. The Act makes permanent the increase ($5,000) in the phase-out amount for joint filers, and also makes permanent the increased 45 percent credit percentage for taxpayers with three or more qualifying children.

Non-Taxable IRA Transfers to Charities – Permanent. Favorable tax treatment is now permanent for those taxpayers age 70½ or older who make direct transfers of up to $100,000 from their IRAs to qualifying charities. If requirements are met, these contributions will be excluded from income and will still count towards the taxpayer's required minimum distributions.

This late (now the norm) Congressional action on tax law and the probable resulting lack of 2015 tax forms will make for a more difficult, compressed tax filing season. Nevertheless, we believe this late action beats no action at all.

INFORMATION REPORTING – DUE JANUARY 31

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

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.

Information returns for 2015 must be generally furnished to the recipients by February 1, 2016 and filed with the Internal Revenue Service by February 29 (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.

Few 2016 Limitation Changes

Many tax or regulatory limitations change on a calendar year basis. As the following summary of the major 2016 limitations compared to the 2015 amount reveals, all but two are unchanged from 2015.

		2016	2015
Current Earnings Allowed Before Social Security Benefits Reduction:			
Worker Below Full Retirement Age	- No Change -	$ 15,720	$ 15,720
Worker Full Retirement Age and Above	- No Change -	Unlimited	Unlimited
(Full Retirement Age 66 for Those Born in 1943 through 1954)			
Social Security Taxes:			
Old Age, Survivors, and Disability Insurance Income Portion of Tax:			
Maximum Base for Tax	- No Change -	$ 118,500	$ 118,500
Tax Rate (Employee and Employer)	- No Change -	6.20%	6.20%
Tax Rate (Self-employed)	- No Change -	12.40%	12.40%
Maximum Tax (Employee)	- No Change -	$ 7,347	$ 7,347
Maximum Tax (Self-employed)	- No Change -	$ 14,694	$ 14,694
Medicare Portion of the Tax:			
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	Decrease	54¢	57.5¢
Use for a Charitable Organization	- No Change -	14¢	14¢
Use for Medical or Moving	Decrease	19¢	23¢
401(k) Maximum Elective Deferral:			
Below Age 50	- No Change -	$ 18,000	$ 18,000
Age 50 or Above	- No Change -	$ 24,000	$ 24,000
Maximum Contribution to Defined Contribution Retirement Plan:			
General Limit – All Plans	- No Change -	$ 53,000	$ 53,000
With 401(k) Feature (Age 50 and over)	- No Change -	$ 59,000	$ 59,000
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	- No Change -	$ 12,500	$ 12,500
Age 50 or Above	- No Change -	$ 15,500	$ 15,500
Maximum Sec. 179 Deduction of Certain Depreciable Property	- No Change -	$ 500,000	$ 500,000
Annual Gift Tax Exclusion Per Donee	- No Change -	$ 14,000	$ 14,000

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Tax & Business Alert

JANUARY 2016

HOW YOU CAN HELP PREVENT TAX-RELATED IDENTITY THEFT

Tax-related fraud isn't a new crime, but tax preparation software, e-filing and increased availability of personal data have made tax-related identity theft increasingly easy to perpetrate. The IRS is taking steps to reduce such fraud, but taxpayers must play their part, too.

HOW THEY DO IT

Criminals perpetrate tax identity theft by using stolen Social Security numbers and other personal information to file tax returns in their victims' names. Naturally, the fake returns claim that the filer is owed a refund — and the bigger, the better.

To ensure they're a step ahead of taxpayers filing legitimate returns and employers submitting W-2 and 1099 forms, the thieves file early in the tax season. They usually request that refunds be made to debit cards, which are hard for the IRS to trace once they're distributed.

IRS TAKES ACTION

The increasing rate of tax-related fraud — not to mention the well-publicized 2015 IRS data breach — has spurred government agencies and private sector businesses to act. This past June, a coalition made up of the IRS, state tax administrators, tax preparation services and payroll and tax product processors announced a new program with five initiatives:

1. **Taxpayer identification.** Coalition members will review transmission data such as Internet Protocol numbers.
2. **Fraud identification.** Members will share fraud leads and aggregated tax return information.
3. **Information assessment.** The Refund Fraud Information Sharing and Assessment Center will help public and private sector members share information.
4. **Cybersecurity framework.** Members will be required to adopt the National Institute of Standards and Technology cybersecurity framework.
5. **Taxpayer awareness and communication.** Members will increase efforts to inform the public about identity theft and protecting personal data.

YOUR ROLE IN PREVENTING FRAUD

But the IRS and tax preparation professionals can't fight fraud without your help. Be sure to keep your Social Security card secure, and if businesses (including financial institutions and medical providers) request your Social Security number, ensure they need it for a legitimate purpose and have taken precautions to keep your data safe. Also regularly review your credit report. You can obtain free copies from all three credit bureaus once a year. ■

ROAD RULES: DEDUCTING BUSINESS TRAVEL EXPENSES

If you travel for business, you'll want to ensure that the expenses you incur while doing so are tax deductible. IRS rules are strict, and improperly substantiated deductions can cost you.

AWAY FROM HOME RULE

Generally, ordinary and necessary expenses of traveling away from home for work are deductible. For the expenses to qualify, you must be away from your tax home — your regular place of business — substantially longer than an ordinary day's work and need to sleep or rest to meet the work demands while away.

You don't necessarily have to stay away from home overnight to satisfy the rest requirement. If you travel for business purposes throughout the day but return home that night to sleep, you may still be considered "away from home" for tax purposes. In this case, expenses you incur for such trips are still deductible.

Also, the trip must be primarily for business purposes. If your trip involves both business and personal activities, a portion of the travel expenses may be nondeductible personal expenses.

DEDUCTIBLE TRAVEL EXPENSES

Most airfare, taxis, rental cars, lodging, meals (with exceptions), tips and business phone calls are tax deductible. But you can't write off "lavish or extravagant" travel expenses, so be prepared to prove that your patronage of a high-end restaurant or five-star hotel was reasonable under the circumstances.

Generally, only 50% of business-related meal and entertainment expenses are deductible. If your employer reimburses you under an accountable plan (see below), the 50% limit applies to your employer rather than you.

You must substantiate deductions for lodging — and for other travel expenses greater than $75 — with adequate records. These include credit card receipts, canceled checks or bills. Records should indicate the amount, date, place, essential character of the expense and business purpose.

BE ACCOUNTABLE

If your employer reimburses your travel expenses, an accountable plan enables the company to deduct the reimbursements, but the reimbursements aren't included in your income as salary and aren't subject to FICA and other payroll tax obligations. Although you may still be able to deduct some or all business travel expenses without an accountable plan, such deductions are available only if you itemize and your expenses and other miscellaneous deductions exceed 2% of your adjusted gross income.

For reimbursed expenses to qualify under an accountable plan, you must have paid or incurred them while on company business and reported the expenses to your employer within a reasonable time (usually within 60 days). You also must return any excess reimbursements — usually within 120 days after they were paid or incurred.

Generally, to be reimbursable on a tax-free basis, your travel must meet the "away from home" rule discussed earlier. However, your employer can reimburse local lodging expenses if the lodging is temporary and necessary for you to participate in or be available for a bona fide business meeting or function. The expenses involved must be otherwise deductible by you as a business expense (or be expenses that would otherwise be deductible if you paid them).

EXCEPTIONS HAPPEN

As with most IRS rules, there are exceptions to which travel expenses you can deduct. If you're unsure about some expenses, give us a call. ■

HOPING TO GROW YOUR BUSINESS?

Start with the financing

Let's say you've drafted a strategic growth plan that discusses in detail the new products and markets that you hope will power your company's future growth. You've performed extensive market research and are confident that your offerings will appeal to customers and that you know how to reach them. Unfortunately, if your plan covers only such topics as product development, manufacturing, distribution, sales and marketing, it probably won't succeed.

To avoid potential cash-flow issues and other financial crises, your strategic plan should specify precisely how you'll fund your growth initiatives. If your company is sitting on a pile of cash just waiting to be invested, you're lucky. Most businesses must finance growth with equity or debt.

EQUITY ISN'T NECESSARILY EASY

Using your own equity in the business to raise capital can be a good solution. However, selling ownership to outside investors, such as private equity firms and venture capitalists, isn't always as easy as it sounds. For starters, you'll need a professional appraisal of your company and you'll have to find investors who believe in your growth strategy — and ability to execute it.

Equity financing doesn't need to be repaid. But, depending on how much equity you sell and how successful your company is in reaching its goals, equity can end up being expensive in the long run. For example, you may need to give up some control to investors, which can lead to disputes over major decisions.

PRICE OF DEBT

Debt financing, on the other hand, *does* have to be repaid, and will cost you interest. Depending on the size and financial health of your company and the nature of your growth plans, you may be able to qualify for:

- Term loans,
- Commercial mortgages,
- Construction loans,
- Equipment leases, and
- Small Business Administration loans.

Banks require borrowers to provide detailed financial information and pledge collateral, possibly including your home and other personal assets. They may also hold you to covenants that, for example, prevent you from borrowing additional money until their loan is repaid.

REASONABLE EXPECTATIONS

We stand ready to help you weigh the advantages and drawbacks of the financing options available to your business. We can also help you evaluate your growth assumptions to ensure that your profit expectations are reasonable. ■

TAX CALENDAR

January 15

- Individual taxpayers' final 2015 estimated tax payment is due unless Form 1040 is filed by February 2, 2016, and any tax due is paid with the return.

February 1

- 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 2015. 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 2015. 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 2015. 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 2015. 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 2015 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 10 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 for 2015. 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.

February 29

- 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 15

- 2015 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 2015 contributions to pension and profit-sharing plans.

CONSOLIDATE ACCOUNTS AND SIMPLIFY YOUR FINANCIAL LIFE

If you've accumulated many bank, investment and other financial accounts over the years, you might consider consolidating some of them. Having multiple accounts requires you to spend more time tracking and reconciling financial activities and can make it harder to keep a handle on how much you have and whether your money is being invested advantageously.

Start by identifying the accounts that offer you the best combination of excellent customer service, convenience, lower fees and higher returns. Hold on to these and consider closing the rest, keeping in mind the bank account amounts you'll be consolidating. The Federal Deposit Insurance Corporation generally insures $250,000 per depositor, per insured bank. So if consolidation means that your balance might exceed that amount, it's better to keep multiple accounts. You should also keep accounts with different beneficiaries separate.

When closing accounts, make sure you stop automatic payments or deposits and destroy checks and cards associated with them. To prevent any future disputes, obtain letters from the financial institutions stating that your accounts have been closed. Closing an account generally takes several weeks. ■