The Accountant's Office

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2014 TAX LETTER

WOW! I had great plans to get this letter out earlier but then December 19, 2014 Congress passed the Tax Increase Prevention Act of 2014 that retroactively "un-expired" provisions I wrote about in last year's newsletter! So, I decided to just let the dust settle over the holidays, but then when I came back, there were all these competing distractions (training newly hired staff, then having to hire again and restart training) which included listening to several webinars in an attempt to understand the application of the Affordable Care Act, aka Health Care Law. Even though this law was passed in March, 2010, its provisions are first effective for 2014. Since its original passage, there have been challenges to this law that could have reversed it, but this past summer it was finally upheld. So now we try to understand and deal with it!

We will be utilizing some new things this year that are becoming necessary because the IRS is so fond of assessing penalties. Don't be upset if you are asked to sign an engagement letter or a statement that indicates we are using information that you have verbally provided. As always, we will copy any documentation you provide and return your originals so that we both have copies of the information used in preparation of your tax return.

*Your 2014 prescheduled tax appointment is listed on the back of this organizer. The Taxpayer Information, Address & Status, and Dependents sections are important to us so we ask that you complete at least that much of the organizer. If your tax situation is similar to prior years, please feel free to drop off your taxes rather than wait for an appointment. Last year's trainee is eager to continue learning! And, as always, if the prescheduled appointment needs to be changed or cancelled, **please** call us as our time is very valuable during the next 3 months. We again have low cost bank products to assist with your payment needs.*

Mandatory Health Coverage

The biggest topic of discussion for preparers this tax season is the individual shared responsibility portion of the Affordable Care Act which mandates that all U.S. individuals (regardless of age) are REQUIRED to have '**minimum essential health coverage**' (MEC) for EACH MONTH of 2014 or, unless qualifying for an exemption, pay a penalty on their 2014 federal income tax return. MEC is defined as coverage under:

a) an eligible employer-sponsored group health plan
b) a health plan offered in the individual market within a state
c) the following government programs-Medicare, Medicaid, CHIP, TRICARE & other military medical coverage, Veterans Affairs (VA), Peace Corps volunteer coverage and Dept of Defense nonappropriated fund health benefits
d) a grandfathered health plan (enrolled on 3/23/10)
e) anything Dept of Health and Human Services (HHS) recognizes.

Even though the penalty is paid on a federal income tax return, HHS is the organization responsible for administering the provisions of ACA.

'**Affordable**' has been defined as not more than 8% of household income. '**Household income**' is defined as adjusted gross income plus tax exempt interest plus foreign earned income exclusion for the taxpayer AND the same information for any members of the individual's tax household (dependents) who are required to file their own tax return. '**Required to file**' relates to the IRS' filing threshold. There are several coverage exemptions available to avoid the Shared Responsibility Penalty. Some of the exemptions are granted by the Marketplace (i.e., Hardship) and some by the IRS (income below filing threshold). You must mail an exemption application to the Marketplace who will send you a notice with your unique Exemption Certificate Number (ECN) which must be included on the tax return or pay the greater of a flat dollar amount ($95 this year; $325 for 2015; $695 for 2016 then adjusted for inflation in subsequent years) or 1% of household income (2% for 2015; 2.5% for 2016) capped at $204 per individual per month for 2014. Taxpayers with household income of more than 100% of the Federal Poverty Level (FPL) for their family size, but not more than 400% of that FPL, who purchased insurance from the Marketplace will receive a Health Insurance Marketplace Statement. **Form 1095-A**, which we MUST have to prepare your 2014 taxes, details insurance coverage information we are required to report on your tax return. This form also reports any Premium Tax Credit (PTC) which reduced the premium paid.

Remember that the PTC was granted based upon 2013 'guesstimates' of 2014 income so the filing of the 2014 return is a reconciliation. Yes, some folks may have a PTC repayment which will be treated as additional tax on the 2014 return and some may have an additional PTC which will be treated as prepaid tax and can be refunded. The PTC is ONLY available if your insurance was purchased through the Marketplace. This was intended to induce people to use the Marketplace and create an enormous 'group' with competitively affordable insurance premiums. ***(NO further comment!)***

New Repair Regulations

Effective January 1, 2014, the IRS has new rules purported to be taxpayer-friendly which supposedly provide much needed clarity for deciding whether costs to acquire, produce, or improve tangible property are currently deductible or must be capitalized and depreciated. Materials and supplies deductible dollar ceiling for an item of property is raised to $200. With an ANNUAL election, a revised and simplified de minimis safe harbor allows a current deduction amount of up to $500 for the acquisition or production of units of tangible property. This has been a gray area for many years and the intent of this regulation is to finally give clarifications. Basically, a 'repair' expenditure is to restore to a sound state or to mend the property in an operating condition over its probable useful life for the uses for which it was acquired. But expenditures for the replacement, alteration, improvement or addition which prolong the life of the property, increase its value, or make it adaptable to a different use are 'capital' and <u>must</u> be depreciated. Small business owners should have an Accounting Policy in place to take advantage of these new limits.

Additional Information

<u>Standard mileage rate</u>. The following rates are applicable for the 2014 and 2015 tax years:

	<u>2014</u>	**<u>2015</u>**
Business	$.56	$.575
Medical	.235	.23
Moving	.235	.23
Charitable	.14	.14

State Changes of Interest

<u>Wisconsin</u>

WI income tax starts with federal adjusted gross income and adds things not on the federal return (eg. Municipal interest) and subtracts things not taxable to WI (eg. State tax refund, US Treasury interest, social security benefits) in order to arrive at the correct WI total income. Because the WI starting point is usually federal AGI, WI law references the Internal Revenue Code in effect on the last date WI legislature voted to accept the federal code. Traditionally, this has been within a year or 2 of the latest federal code, but because so many federal provisions supposedly expired 12/31/13, WI lawmakers selected federal law in effect on January 1, 2014. BUT, when the Tax Increase Prevention Act of 2014 was signed on December 19, 2014 essentially 'un-expiring' many beneficial tax provisions, WI was forced to re expand the list of provisions that do not apply for WI for 2014. Most significant of these provisions is the 50% bonus depreciation. In prior years, if bonus was elected on the federal return, a separate depreciation schedule was created for WI which also caused a different WI tax basis of the asset. At the beginning of 2014, WI wanted to 'equalize' federal and WI asset basis so we are required to look at all assets in service on 1/1/14 and make the WI basis equal to the federal basis. That 'basis equalization' is an ordinary deduction of 20% of the difference on the WI return over 5 years. I spoke to the Deputy Administrator about this and she informed me that the Legislature made up the rule then told WI Dept of Revenue to implement it. ***(It seems to me that WI legislators are trying to emulate their federal counterparts – make up a rule and have someone else figure out how to make it work. Where, oh where, has Common Sense gone???!!)***

<u>Minnesota</u>

A bill conforming MN law to federal provisions as a result of the federal Tax Increase Prevention Act signed in December, 2014, is moving through the state legislature and should be signed very shortly. Alas, there is no communication on the horizon to restore reciprocity between WI and MN so the 'border bunnies' will have to continue to file tax returns in both states. (***Again a lament for Common Sense...)***

Houskeeping

"Making out your own tax return is something like a do-it-yourself mugging." Karen Brehmer, IRS speaker. The IRS is anticipating about 17% more extensions this year as a result of the first implementation of the ACA rules this tax season. There is going to be more work involved in almost all tax returns. This is a heads up that the cost of your seemingly identical tax return will likely be more than last year. And, don't be surprised if our staff starts wearing bullet proof shirts that ask for mercy for the messenger!