

October 15th Extension Deadline Approaching

Article Highlights:

- Extended due date
- Late filing penalties
- Interest on tax due

If you were unable to file your 2013 individual tax return by April 15th and filed an extension, you should be aware that the extension gave you until October 15th to file your return or face a late filing penalty, which is 4½% of the tax due per month, with a maximum penalty of 22½% of the tax due. There is also a minimum penalty of the lesser of \$135 or 100% of the tax due. If you prepaid your 2013 taxes timely through a combination or withholding or estimated taxes and will receive a refund when your return is ultimately filed, there is no penalty for filing late.

You should also be aware that the extension provided you additional time to file your return but not additional time to pay any tax you might owe. Thus, even though the extension avoids the late filing penalty, you are still subject to interest on any unpaid balance through the date of filing. Therefore, you can minimize interest charges by filing as soon as possible.

There are no additional extensions available, so if you owe tax it is important you file by the October 15th due date even if you have to estimate the missing items and file an amended return at a later date.

If you are on extension and have the information needed to complete your return, it is important that you provide that information to this office as soon as possible to avoid being caught up in a last-minute rush. If you are on extension and cannot obtain the information required to complete your return, please call this office as soon as possible to discuss your options.

Repeated Warning about Phone Scams

Article Highlights:

- Scammers who pretend to be from the IRS are calling people across the country.
- IRS never initiates contact by phone or e-mail.
- IRS never asks for credit card numbers or account PINs over the phone.
- IRS never demands immediate payment.
- Don't get hoodwinked!

This office has repeatedly warned clients about scams related to taxes. The problem has only gotten worse, so we feel obligated to issue another warning. The scammers out there are pretty sophisticated and are trying to steal your identity and your money. This office doesn't want you to become a victim, so please read this article and let family and friends know about this rapidly escalating scam based upon individuals' fears of the Internal Revenue Service (IRS) and their overreaction to calls claiming to be from the IRS. You can even forward this article to your friends and family, and especially be sure to make your elderly family members aware of these scams.

The IRS and the Treasury Inspector General for Tax Administration (TIGTA) continue to hear from taxpayers who have received unsolicited calls from individuals demanding payment while fraudulently claiming to be from the IRS. Based on the 90,000 complaints that TIGTA has received through its telephone hotline, through mid-year, TIGTA has identified approximately 1,100 victims who have lost an estimated \$5 million from these scams. We can only imagine how many thousands of taxpayers haven't reported their losses and encounters with these scammers.

Taxpayers should remember their first contact with the IRS will not be a call from out of the blue, but through official correspondence sent through the mail. A big red flag for these scams is an angry, threatening call from someone who says he or she is from the IRS and urging immediate payment. This is not how the IRS operates. **If you receive such a call, you should hang up immediately.**

Additionally, it is important for taxpayers to know that the IRS:

- Never asks for credit card, debit card, or prepaid card information over the telephone.
- Never insists that taxpayers use a specific payment method to pay tax obligations.
- Never requests immediate payment over the telephone.
- Will not take enforcement action immediately following a phone conversation. Taxpayers usually receive prior written notification of IRS enforcement action involving IRS tax liens or levies.

Potential phone scam victims may be told that they owe money that must be paid immediately to the IRS; or, on the flip side, that they are entitled to big refunds. When unsuccessful the first time, sometimes phone scammers call back trying a new strategy. Other characteristics of these scams include:

- Scammers use fake names and IRS badge numbers. They generally use common names and surnames to identify themselves.
- Scammers may be able to recite the last four digits of a victim's Social Security number. Make sure you do not provide the rest of the number or your birth date...that is information ID thieves can use to make your life miserable.
- Scammers spoof the IRS toll-free number on caller ID to make it appear that it's the IRS calling.
- Scammers sometimes send bogus IRS e-mails to some victims to support their bogus calls.
- Victims hear background noise of other calls being conducted to mimic a call site.
- After threatening victims with jail time or driver's license revocation, scammers hang up and others soon call back pretending to be from the local police or DMV, and the caller ID supports their claim.

DON'T GET HOODWINKED...it is a scam. If you get a phone call from someone claiming to be from the IRS, DO NOT give the caller any information or money. Instead, you should immediately hang up. Call this office if you are concerned about the validity of the call.

The IRS does not initiate contact with taxpayers by e-mail to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels. The IRS also does not ask for PINs, passwords, or similar confidential access information for credit card, bank, or other financial accounts. If you receive such a request or communication, DO NOT open any attachments or click on any links contained in the message. If you wish to help the government combat these scams, forward the e-mail to phishing@irs.gov.

This is not the only scam currently making the rounds; you should be aware that there are other, unrelated, scams (such as a lottery sweepstakes) and solicitations (such as debt relief) that fraudulently claim to be from the IRS. When in doubt, please call this office.

Gambling Income and Losses

Article Highlights:

- Reporting Gambling Winnings
- Comps
- Reporting Gambling Losses
- Netting Specific Wagers
- Proving Gambling Losses
- Supporting Documentation

Generally, a taxpayer must report the full amount of his recreational gambling winnings for the year as income on his 1040 return. Gambling income includes, but is not limited to, winnings from lotteries, raffles, horse and dog races, and casinos, as well as the fair market value of prizes such as cars, houses, trips or other non-cash prizes.

A taxpayer may not reduce his gambling winnings by his gambling losses and just report the difference. Instead, gambling winnings are reported in full as income, and losses (subject to limitation as discussed below) are deducted on Schedule A. Therefore, if a taxpayer does not itemize his deductions, he is unable to deduct gambling losses.

Frequently, taxpayers with winnings will expect to report only those winnings included on Form W-2G. However, those winnings reported on W-2G forms generally do not include all winnings for the year, and the tax code requires all winnings to be reported. All winnings from gambling activities must be included when computing the deductible gambling losses, which is generally always an issue in a gambling loss audit.

A taxpayer may deduct as a miscellaneous itemized deduction (not subject to the 2% of AGI limitation) gambling losses suffered in the tax year, but only to the extent of that year's gambling gains. In other words, you can never show a net loss.

Gains - "Gains" include "comps" (complimentary goods and services the taxpayer may receive from a casino).

Losses - Losses from one kind of gambling are deductible against gains from another kind. The IRS has ruled that transportation and meal and lodging expenses incurred while engaged in gambling activities are nondeductible personal expenses that cannot be deducted against gambling winnings. Individuals deduct gambling losses (to the extent of gambling gains) only as miscellaneous itemized deductions (but not subject to the 2%-of-AGI floor).

Comps - Gambling casinos often provide their customers with complimentary goods and services ("comps") to encourage future patronage. The IRS says that extraordinary comps, such as autos and jewelry, are taxable income. But it reserves the question of whether "normal comps," such as food, drink, lodging and entertainment, can be excluded from income as purchase price adjustments.

Netting Specific Wagers - The amount of income from a winning bet or wager is the full amount of the winnings less the cost of placing that specific winning bet or wager. Thus, the winner of a sweepstakes includes as income the amount by which the prize money exceeds the ticket price, and the winner of a horse race includes as income the amount of prize money less the cost of the winning race ticket. In computing the amount of income from winnings, the cost of losing tickets (or other forms of wager) is not netted against the winnings.

Proving Gambling Losses - *An accurate diary or similar record regularly maintained by the taxpayer, supplemented by verifiable documentation, will usually be acceptable evidence for substantiation of wagering winnings and losses. In general, the diary should contain at least the following information:*

- (1) Date and type of specific wager or wagering activity;
- (2) Name of gambling establishment;
- (3) Address or location of gambling establishment;
- (4) Names of other persons (if any) present with the taxpayer at the gambling establishment; and
- (5) Amounts won or lost.

Verifiable documentation includes wagering tickets, canceled checks and credit records. Where possible, the IRS says the documentation should be backed up by other documentation of the activity or visit to a gambling establishment; e.g., hotel bills, airline tickets, etc. Affidavits from "responsible gambling officials" (not further defined) regarding gambling activities can also be used.

Other supporting documentation - Winnings and losses may be further supported by the following items:

- Keno — Copies of keno tickets purchased by the taxpayer and validated by the gambling establishment.
- Slot Machines — A record of all winnings by date and time that the machine was played.
- Table Games — *Twenty-One (Blackjack), Craps, Poker, Baccarat, Roulette, Wheel of Fortune, etc.* — The number of the table at which the taxpayer was playing. Casino credit card data indicating whether credit was issued in the pit or at the cashier's cage.
- Bingo — A record of the number of games played, cost of tickets purchased and amounts collected on winning tickets.
- Racing — *Horse, Harness, Dog, etc.* — A record of the races, entries, amounts of wagers and amounts collected on winning tickets and amounts lost on losing tickets. Supplemental records include unredeemed tickets and payment records from the racetrack.
- Lotteries — A record of ticket purchase dates, winnings and losses. Supplemental records include unredeemed tickets, payment slips and winnings statements. Winnings from lotteries and raffles are gambling and therefore are included in gross income. In addition to cash winnings, the taxpayer must include income bonds, cars, houses and other noncash prizes at fair market value. If a state lottery prize is payable in installments, the annual payments and amounts designated as interest on the unpaid balance must be included in gross income.

Gambling Sessions - There is a concept of gambling "sessions" where the IRS allows netting of gain and losses. However, the record-keeping requirements are so stringent that

they make its application extremely limited, and it is not covered in detail in this article. The concept basically allows gamblers to net gains and losses from gambling sessions. However, a gambling session is very limited in scope. It must be the same type of uninterrupted wagering during a specific uninterrupted period of time at a specific location. Thus if a taxpayer entered a casino and played slots for an hour, then switched to craps for the next hour, that would be two separate gambling sessions. If a taxpayer entered Casino #1 and played slots for an hour and then went to Casino #2 and continued to play slots, that would be two separate gambling activities because two locations were involved. Plus all of that must be adequately documented.

Charity Raffles – The IRS considers raffles, bingo, lotteries, etc., to be gambling, even if the sponsor of the activity is a charitable organization. So winnings and losses are treated the same as for any other gambling activity, and the amounts paid to buy raffle or lottery tickets or to play bingo or other games of chance are **not** deductible as a charitable contribution.

If you have winnings and want more information on how those winnings will impact your tax liability, please give this office a call.

Charity Purchases and Auctions

Article Highlights

- Quid pro quo contributions
- Documentation requirements
- Separating charitable contribution from purchase price

A regular form of fundraising by charitable organizations consists of sales or auctions of property or services at a price in excess of value. These are referred to as “quid pro quo” contributions or dual payments made that consist partly of a charitable gift and partly of consideration for goods or services provided to the donor.

Quid pro quo in Latin is “something for something.” When used in the context of charitable contributions, quid pro quo contributions typically include the purchase of tickets for sightseeing tours, all-expense-paid trips, theatrical or concert performances, books or subscriptions to magazines, stationery, candy, and more. They are sold with a generous mark-up that is designed to help the charity in performing its functions. In these cases, the charitable deduction is the excess of the payment over the value received by the purchaser-contributor. For instance, when tickets to a show are purchased from a charity at a price in excess of the normal admission charge, the excess over the latter (plus tax) is a charitable contribution.

Determining and documenting the amount of the purchase that represents the charitable portion is the key to being able to take a charitable tax deduction for quid pro quo purchases. Tax law requires charitable organizations that receive a quid pro quo contribution in excess of \$75 to provide a written statement, in connection with soliciting or receiving the contribution, that informs the donor that the amount of the contribution that is deductible for federal income tax purposes is limited to the amount of the purchase that is in excess of the value of the property or service purchased and a good-faith estimate of the value of the goods or services purchased.

Example #1—A taxpayer purchases a cookbook from a charity for \$100. The charity provides the taxpayer with a good faith estimate of \$20 for the value of the book in a written disclosure

statement. Thus, the taxpayer's charitable deduction is \$80 (\$100 minus the \$20 value of the book).

Example #2—A taxpayer attends a charity auction. The charity provides a catalog of the items for auction and a good-faith estimate of the value of each item. The taxpayer is the successful bidder for a vase valued at \$100 in the catalog, for which the taxpayer bid and paid \$500. The taxpayer's charitable deduction is \$400 (\$500 minus the good-faith valuation of \$100).

Example #3—A taxpayer pays \$40 to see a special showing of a movie for the benefit of a qualified charity. The ticket reads "Contribution \$40." If the regular price for the movie is \$10, the contribution would be \$30 (\$40 minus the regular \$10 ticket price).

If you made or are considering making a quid pro quo purchase from a charitable organization and have questions relating to the amount that will represent a charitable contribution, please give this office a call.

Alcoholism & Drug Addiction

Article Highlights:

- Potential medical deductions
- Medical dependent
- Divorced parents
- Medical AGI limitations

Taxpayers are allowed a deduction for medical expenses paid during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, the taxpayer's spouse, or a dependent.

Alcoholism and drug addiction are treated as medical ailments for tax purposes. People with addictions often cannot quit on their own. Addiction is an illness that requires treatment. Generally, treatment expenses are tax deductible as an itemized deduction medical expense. Possible deductible expenses include the costs of the following:

- Doctors
- Prescribed medications
- Laboratory testing
- Psychological services
- Treatment programs
- Inpatient treatment at a therapeutic center for alcoholism or drug abuse, including meals and lodging furnished as necessary incident to the treatment
- Counseling
- Behavioral therapies

To claim these expenses for someone other than the taxpayer or a spouse, the person must have been a dependent either at the time that the medical services were provided or at the time that the expenses were paid.

The qualifications for a medical dependent are less stringent than those for a regular dependent. A person generally qualifies as a dependent for purposes of the medical expense deduction if:

1. That person lived with the taxpayer for the entire year as a member of the household (temporary absence to obtain medical treatment is an exception) or is related to the person,

2. That person was a U.S. citizen or resident or a resident of Canada or Mexico for some part of the calendar year in which the tax year began, and
3. The taxpayer provided over half of that person's total support for the calendar year. Medical expenses of any person who is a dependent may be included, even if an exemption for him or her cannot be claimed on the return.

Thus, the dependent's age and income are not limiting factors for purposes of determining whether an individual is a dependent for purposes of deducting medical expenses.

For example, suppose an adult child has an addiction problem, and even though the child is an adult and generates an income, a parent may still be able to deduct medical expenses that he or she pays for the adult child if the three requirements above are met. The parent must pay the medical service providers directly and not just give the money to the dependent to pay the bills.

In the case of divorced parents, if either parent meets the regular dependency qualifications, then each parent can deduct the medical expenses each paid for the child. But consider the AGI limitations, discussed below, that might preclude any deduction for one of the parents, and plan payments accordingly.

Another issue related to medical expenses is that a taxpayer must itemize deductions in order to claim them, and medical deductions are only allowed as an itemized deduction to the extent that they exceed 10% of the taxpayer's AGI. If the taxpayer or spouse is age 65 or older, that limitation is reduced to 7.5% of the taxpayer's AGI.

As you can see, these and other tax rules related to medical deductions can become complicated. If you need assistance in planning medical expenditures for maximum tax benefits or determining whether you can deduct certain expenses, please call.

Better to Sell or Trade a Business Vehicle?

Article Highlights:

- Dispositions for Gain
- Dispositions for Loss
- Vehicle Trade-in

When replacing a business vehicle, it does make a difference for tax purposes whether you decide to sell it or trade it for the replacement vehicle. If you sell a vehicle that was used for business, the resulting gain or loss is reported on your tax return. As a result, it is generally better to sell a vehicle if the disposition of the vehicle will result in a loss. If, on the other hand, the disposition will result in a gain, it would be better to trade it. Since trade-ins are treated as a tax-deferred exchange and any gain or loss is absorbed into the replacement vehicle's depreciable basis, it is generally better to trade in a vehicle that would result in a gain.

As an example, suppose you sell your business vehicle for \$12,000. Your original purchase price was \$32,000 and \$17,000 is taken in depreciation. As illustrated below, the sale results in a loss, so it generally would be better for you to sell the vehicle and deduct the loss rather than trade in the vehicle.

<i>Sales price</i>		<i>\$12,000</i>
<i>Cost</i>	<i>\$32,000</i>	
<i>Depreciation Taken</i>	<i><\$17,000></i>	

<i>Depreciated Basis</i>	<u><\$15,000></u>
<i>Loss</i>	<u><\$ 3,000></u>

On the other hand, had you sold the business vehicle for \$16,000, the sale would have resulted in a \$1,000 taxable gain, and trading it in would have been a better option.

If the vehicle is used partially for business and personal purposes, the loss or gain must be prorated for the business use. Loss on the personal portion is not deductible.

Since trade-in values are generally less than the sales value of the vehicle, the trade-in decision must also consider whether the tax benefits will exceed the additional money received from selling the old business vehicle. Of course, there is always the hassle of selling a car to be considered as well.

This sell/trade-in concept also applies when selling or disposing of other business assets.

If you have any questions related to the disposition of vehicles or any other business asset and how the sale will impact you business wise, please give this office a call.

Getting Around the Kiddie Tax

Article Highlights

- Reason for the Kiddie Tax
- Legal Ways to Avoid It
- Investments that Avoid the Kiddie Tax
- Other Tax-advantaged Moves for Children

Congress created the "Kiddie Tax" to prevent parents from placing investments in their child's name to take advantage of the child's lower tax rate. Kiddie Tax rules apply most often to children through the age of 17, although children aged 18 through 23 who are full-time students may also be affected. Under the Kiddie Tax, a child's investment income in excess of an annual inflation adjusted floor amount (\$2,000 for 2014) is taxed at the parent's tax rate rather than the child's. These rules do not apply to married children who file a joint return with their spouse.

Depending upon your circumstances, this can be either a tax return preparation nuisance or a penalty tax – or, maybe, both. Parents have the option of including their children's investment income on their own return and thus avoiding the hassle and cost of filing a separate tax return for the children. For higher-income taxpayers who are subject to the net investment income tax, electing to include a child's income on their own return may subject the child's investment income to this new, punitive 3.8% surtax on net investment income tax.

Many insightful parents seek tax-advantaged ways to put money aside for their children's education, first home, etc. They should not be deterred by the Kiddie Tax, as there are legal ways to avoid it. This is generally accomplished by making investments that produce tax-free income or that defer income until the year the child reaches age 18 (age 24 if a full-time student). If, at that time, the child has little or no other income, the deferred income could be realized with little to no income tax.

The following are examples of investments that either defer income or generate tax-free income. However, you must also consider that some of these might have a lower rate of return than a taxable investment:

- **U.S. savings bonds** – Interest can be deferred until the bonds are cashed.
- **Municipal bonds** – Generally produce tax-free interest income for federal taxes. Most states with a state income tax also permit tax-free treatment of interest from bonds of that state or local governments within that state.
- **Growth stocks** – Stocks that focus more on capital appreciation than current income. The child could wait to sell them until after attaining age 18 (or age 24 if a full-time student) at a time when he or she has little or no other income. Another technique is for the parents to gift appreciated stock to their children, thereby shifting gain to the children when the stock is sold. Thus, each parent could gift appreciated property, such as stock, value not to exceed the annual gift tax exclusion amount (\$14,000 for 2014) to each child without current tax consequences. Later, when the child sells the appreciated property, the child would pay the tax on the parent's appreciation.
- **Mutual funds** – Mutual funds that focus on growth stocks or municipal bonds. Although they might throw off some taxable income, their primary goal is capital appreciation or tax-free income.
- **Unimproved real estate** – This provides appreciation without current income.

If the family has a business, the business could employ the child. The child's earned income is not subject to the Kiddie Tax rules and will generate a deduction for the family business (assuming the wages are reasonable for work actually performed). The child's earned income can offset the standard deduction for a dependent and the excess income will be taxed at the child's rate (not the parent's). In addition, the child would also qualify for an IRA, which provides additional income shelter.

If you have questions related to the "Kiddie Tax," please give this office a call.

Billing for Time in QuickBooks: An Overview

If you sell your employees' time and skills, you can use QuickBooks to record those hours and bill your customers for them.

If your small business sells products, you know how precisely you must track your starting stock numbers, ongoing inventory levels, and your reorder points. QuickBooks provides tools to help with this process, but human factors can sometimes throw off your careful counts.

Fortunately, QuickBooks is remarkably flexible when it comes to recording the time your employees spend on customers and jobs. You can enter information about a single activity - - either billable or unbillable -- and/or document hours in a timesheet. A built-in timer (the "Stopwatch") helps you count the minutes automatically; you can also type them in manually.

One Work Session

All versions of desktop QuickBooks include dialog boxes designed to help you enter all the details related to a single timed activity. To get there, either open the **Employees** menu and select **Enter Time | Time/Enter Single Activity** or click the down arrow next to the **Enter Time** icon on the **Home Page** and choose **Time/Enter Single Activity**.

Figure 1: QuickBooks helps you create records for individual activities completed by employees, which can be either billable or unbillable.

You fill out the fields in this window like you would any other in QuickBooks. Click the calendar icon in the **DATE** field to reflect the date the work was completed (not the current date), and click the down arrows in the fields that contain them to select options from a list. If you already know the duration of the activity, simply enter it in the field to the right of the clock icon. Otherwise, use the **Start**, **Stop**, and **Pause** buttons to let QuickBooks time it.

The **Time/Enter Single Activity** dialog box is designed to record one activity, not necessarily an entire workday, unless an employee only provides one service for one customer in a day. If he or she provides more than one service for one or more customers, you'll need a fresh record for each.

Note: If the employee selected is timesheet-based, an additional field will appear above the **CLASS** field asking for the related **PAYROLL ITEM**. And if you've turned on workers' compensation (and the employee is timesheet-based), a field titled **WC CODE** will drop into place below it. This must be done absolutely correctly, and it can get complicated. We can help you manage this feature.

A Comprehensive View

At the top of the **Time/Enter Single Activity** dialog box, you'll see an icon labeled **Timesheet**. If you click on this with an employee's name selected, his or her timesheet will open and display the hours already entered for that period. Or you can open a blank timesheet by opening the **Employees** menu and selecting **Enter Time | Use Weekly Timesheet**. You can also click the **Enter Time** icon on the Home Page.

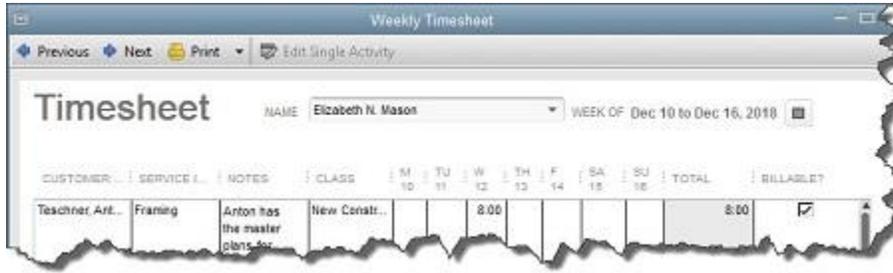


Figure 2: You can access an employee's timesheet from the Time/Enter Single Activity dialog box, from the Employees menu, or from the Home Page.

If you've entered all of the hours individually for an employee in a given time period, the timesheet should be correct when you click through from the **Time/Enter Single Activity** box. If not, you can edit cells by clicking in them and changing the data. Be sure that the **Billable** box is checked or unchecked correctly.

You can also enter hours directly on a timesheet instead of recording individual activities. Just select the employee's name by clicking on the arrow in the **NAME** field at the top of the **Weekly Timesheet** dialog box and fill in the boxes.

Note: Individual activities that you enter for employees are automatically transferred to the timesheet format and vice-versa.

Billing for Time

QuickBooks keeps track of all entered billable hours and reminds you of them when it's time to invoice. If customers have outstanding time and/or costs, this dialog box will open the next time you start to create an invoice for them:



Figure 3: This dialog box is one of the ways QuickBooks helps you bill customers for everything they owe.

QuickBooks also provides several reports related to billing for time. We'll be happy to go over them and – as always – help with any other questions you might have.