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Leslie A. Cesario, Ltd. Monthly Newsletter

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Changes in Circumstances Can Affect Your Premium Assistance Credit

Article Highlights:

- Premium assistance credit based on actual family income and size.
- Overestimated assistance may have to be paid back.
- How family size is determined.
- How family income is determined.

If you are signed up for health insurance through a health insurance marketplace, you may have qualified for the premium assistance tax credit. This credit provides financial assistance to help you pay for your health insurance premiums. Individuals and families that qualify for the credit are given the choice to receive the credit in advance to reduce the insurance premiums during the year, or they can pay the full insurance premiums and get the credit when they file their tax return next year.

If you chose to take the advance credit (premium subsidy), you should be aware that the credit on which the subsidy is based was determined using **estimated** household income and family size for the year.

If your estimated household income and family size are different from the actual amounts reported when you file your 2014 return next year, the following will happen:

- **Overstated Income and Family Size:** If your household income and family size was overestimated and you received premium subsidies based on an advanced credit that was less than you were entitled to, you will receive credit for the difference on your 2014 tax return.
- **Understated Income and Family Size:** If your household income or family size was underestimated and you received premium subsidies based on an advanced credit that was more than you were entitled to, you will have to pay back some or all of the difference on your 2014 tax return.

A taxpayer's family size is the number of individuals for whom the taxpayer is allowed an exemption deduction for the tax year. For example, if you are married and filing jointly with two dependent children, your family size would be four.

The term "household income" includes the modified adjusted gross income (MAGI) of the taxpayer plus the sum of MAGIs of all individuals taken into account when determining the taxpayer's family size and who had to file a tax return. MAGI is generally the same as your income unless you have certain adjustments. For example, say you are filing jointly with your spouse and only you work and make $40,000 per year. You also claim your two children as dependents and one of them has a part-time job and made $9,000 for the year. You have no adjustments to your income, so your household income would be $49,000 ($40,000 + $9,000). Your child's income is included in your household income because making $9,000 would have required the child to file a tax return.

If you had not included your child's income in your projected household income, the advance credit, and the corresponding premium subsidy would be more than you were entitled to and you may have to pay part of it back.

That is why, if you decided to get the credit in advance, it's important to report any changes in your income or family size to the marketplace throughout the year. Reporting these changes will help you get the proper type and amount of financial assistance so you can avoid getting too much or too little in advance.

If you have questions related to the premium assistance credit, please give this office a call.

President Proposes Reinstating Gift Limits

Article Highlights:

- President's proposed gift and estate tax changes for 2018.
- The annual gift tax exclusion is $14,000 per recipient during the year.
- Estate and gift tax limit would revert to 2009 levels.

If you are fortunate enough financially to be able to make significant gifts to family members and others, you may want to pay attention to the changes in gift tax law being proposed by the President.

For a number of years, the amount of tax-free gifts one could make was limited to an annual per-recipient amount of $14,000 in 2014 and an additional lifetime amount of $1 million dollars.

Those rules were liberalized beginning in 2010, when the gift and estate tax limits were unified so that the estate tax exclusion could be used for a combination of taxable gifts and estate tax exclusions. This currently permits gifts up to the estate tax exemption limit of $5.34 million for 2014 without incurring any gift tax. But gifts in excess of the annual $14,000 limit are not without future estate tax implications because a gift that exceeds the annual per-recipient exclusion reduces the estate tax exemption by the excess amount of that gift. Thus, current gifts could cause the taxable estate of the gift giver to be higher and taxed at rates substantially higher than normal income tax rates when he or she passes away.

The President's estate and gift tax proposal would, beginning in 2018, return the estate, generation-skipping transfer (GST), and gift tax exemption and rates to 2009 levels. Thus, the top tax rate would be 45%, up from the current 40%, and the exclusion amount would be $3.5 million for estate and GST taxes, nearly $2 million less than the current exclusion amount. In addition, the lifetime exclusion for gifts would return to $1 million. The proposal makes no changes to the amount of the annual gifting limit.

Although 2018 is over three years away and there are no assurances that the President's proposal will actually become law, its potential impact on gift giving should be considered in one's long-term gift planning.
If you need assistance with long-term gift and estate tax planning, please give this office a call.

IRS Reinterprets the Once-Per-Year IRA Rollover Limitation

There is a tax rule that allows taxpayers to take money out of their IRA and avoid paying income tax and the 10% early distribution penalty so long as they return that money to their IRA account within 60 days.

However, tax law limits the number of rollovers to one per year. In the past, the IRS has taken a liberal view toward the one-per-year limitation by allowing one rollover *per* IRA account each year. In other words, if you have three separate IRA accounts, you can apply the 60-day rollover rule to *each* IRA account.

However, a recent Tax Court Case ruled that the once-per-year rollover applied to the aggregate of all of the taxpayer's IRA accounts, meaning *all* of a taxpayer's IRAs are treated as *one* for the purposes of applying the once-per-year rollover limitation.

The IRS has announced it will adopt the Tax Court's ruling, meaning that an individual cannot make an IRA-to-IRA rollover if he or she made such a rollover involving any of individual IRAs in the preceding one-year period.

Since both the IRS's proposed regulations and Publication 590 currently permit one rollover per account, the IRS is extending transitional relief and will not apply the Tax Court's interpretation to the rollover rule to any rollover that involves an IRA distribution occurring before January 1, 2015.

These actions by the IRS will not affect the ability of an IRA owner to transfer funds from one IRA trustee directly to another because such a transfer is not a rollover and, therefore, is not subject to the one rollover-per-year limitation.

Taxpayers considering utilizing the 60-day rollover rule should be cautious about possibly violating the once-per-year rollover rule. Please call this office if you have any concerns.

Bartering Is Taxable Income

Article Highlights:

- Exchange of goods or services
- Bartering is taxable income
- Bartering exchanges
- Bartering credit units

Bartering is the trading of one product or service for another. Often there is no exchange of cash. In addition to individuals, small businesses sometimes barter to get the products or services they need. For example, a plumber might trade plumbing work with a dentist for dental services. Bartering may take place on an informal one-on-one basis between individuals and businesses, or it can take place on a third-party basis through a modern barter exchange company.

Some individuals and small businesses believe that bartering avoids taxable income because there is no exchange of money. This is not true, however; barter exchanges are considered taxable income by the IRS. The fair market value of goods and services exchanged must be included in the income of both parties to the exchange.

Business Owners – If you are the owner of a business, you may sometimes find it to your advantage to barter for goods and services rather than pay in cash. You should be aware, however, that the fair market value of the goods that you receive through bartering is taxable income, just as if you had received a cash payment.

Exchanges of services result in taxable income for both parties. Say, for example, that a computer consultant agrees to an exchange of services with an advertising agency. Both parties to the transaction are taxed on the fair market value of the services received. This is the amount they would normally charge for the same services. If the parties agree to the value of the services in advance, this will be considered the fair market value, unless there is contrary evidence.

Income is also realized when services are exchanged for property. For example, if an architectural firm does work for a corporation in exchange for shares of the corporation's stock, it will have income equal to the fair market value of the stock.

Barter Exchanges – Individuals and business owners sometimes join barter clubs that facilitate barter exchanges. Some exchanges operate out of an office and others over the

Internet. Unlike one-on-one bartering, members of exchanges are not obligated to barter or purchase directly from a seller. Instead, when a barter exchange member sells a product or a service to another member, their barter account is credited for the fair market value of the sale. When a barter exchange member buys, the account is debited for the fair market value of the purchase. These clubs generally use a system of "credit units" that are awarded to members who provide goods and services and can be redeemed for goods and services from other members.

If you participate in a barter club, you'll be taxed on the value of credit units at the time they are added to your account, even if you don't redeem the units for actual goods and services until a later year. For example, say that in Year 1, you earn 2,000 credit units and each unit is redeemable for one dollar in goods and services. In Year 1, you'll have $2,000 of income. You won't pay additional tax if you redeem the units in Year 2, since you will already have been taxed once on that income.

When you join a barter club, you'll be asked to give the club your social security number or employer identification number and to certify that you aren't subject to backup withholding. Unless you make this certification, the club must withhold tax from your bartering income at a 28% rate.

By January 31st of each year, the barter club will send you a Form 1099-B, which shows the value of cash, property, services, and credits that you received from exchanges during the previous year. This information will also be reported to the IRS.

If you have questions related to bartering income, please give this office a call.

Receiving Tips Can Be Taxing

Article Highlights:

- Tips are taxable and must be included on your tax return
- Tip splitting and cover charges
- Tip reporting to employer
- Employer tip allocation
- Daily log for tip record keeping

If you work in an occupation where tips are part of your total compensation, you need to be aware of several facts relating to your federal income taxes:

- **Tips are taxable** - Tips are subject to federal income, social security, and Medicare taxes. The value of non-cash tips, such as tickets, passes, or other items of value, is also income and subject to taxation.

- **Include tips on your tax return** - You must include all cash tips received directly from customers, tips added to credit cards, and your share of any tips received under a tip-splitting arrangement with fellow employees in gross income.

- **Tip-splitting and cover charges** - Tips given to others under the tip-splitting arrangement are not subject to the reporting requirement by the employee who initially receives them. That employee should only report the net tips received to the employer. Service (cover) charges, which are arbitrarily added by the business establishment, are excluded from the tip reporting requirements. The employer should add each employee's share of service charges to each employee's wages.

- **Report tips to your employer** - If you receive $20 or more in tips in any month, you should report all of your tips to your employer. Your employer is required to withhold federal income, social security, and Medicare taxes. If the tips received are less than $20 in any month, they do not need to be reported to the employer. However, these tips are still taxable and must be reported on your tax return as they are subject to income and social security taxes.

- **Employer allocation of tips** - Tip allocation is applicable to "large food and beverage establishments" (i.e., food service businesses where tipping is customary and that have 10 or more employees). These establishments must allocate a portion of their gross receipts as tip income to those employees who "underreport." Underreporting occurs if an employee reports tips that are **less than 8%** of the employee's applicable share of the employer's gross sales. The employer must allocate the difference between what the employee reported and the 8% to those underreported employees. The allocation amount is noted on the employee's W-2, but it does not have to be reported as additional income if the employee has adequate records to show that the amount is incorrect. Note that these allocated tips are not included in the total wages shown on the employee's W-2. The IRS frequently issues inquiries where the taxpayer's W-2 shows an allocation of tips and a lesser amount is reported on the tax return.

- **Keep a running daily log of tip income** - Tips are a frequently audited item and it is a good practice to keep a daily log of your tips. The IRS provides a log in Publication 1244 that includes an *Employee's Daily Record of Tips and a Report to Employer* for recording your tip income.

If you are receiving tips and have any questions about their tax treatment, please give this office a call.

Individual Estimated Tax Payments for 2014 Start Soon

Article Highlights:

- Pay-as-you-go tax system
- Tax law changes affecting estimates
- Underpayment penalties
- Safe harbor estimates

Our tax system is a "pay-as-you-go" system, and if your pre-paid amount is not enough, you become liable for non-deductible interest penalties. To facilitate that concept, the government has provided several means of assisting taxpayers in meeting the "pay-as-you-go" requirement. The primary among these include:

- Payroll withholding for employees;
- Pension withholding for retirees; and
- Estimated tax payments for self-employed individuals and those with other sources of income not covered by withholding.

Determining how much tax to pre-pay through withholding and estimated tax payments has always been difficult, and thanks to Congress' constant tinkering with the tax laws, ensuring there are no underpayment penalties or tax surprises when the tax return is prepared next year can be challenging.

Recently, several new tax laws and changes took effect that add complexity to estimating one's tax liability, including: higher ordinary tax rates, higher capital gains tax rates, the phase out of exemptions and itemized deductions for higher income taxpayers, the 3.8% tax on net investment income, and .9% increase in self-employment tax for upper-income self-employed individuals, not to mention a myriad of sun setting tax provisions.

When a taxpayer fails to prepay a safe harbor (minimum) amount, he or she can be subject to the underpayment of estimated tax penalty. This penalty is the short-term federal rate plus 3 percentage points, and the penalty is computed on a quarter-by-quarter basis. So, even if you pre-pay the correct amount for the year, if the amounts are not paid evenly, you could be subject to a penalty. Interestingly enough, withholding amounts are treated as paid ratably throughout the year, so taxpayers who are underpaid in the earlier part of the year can compensate by bumping up their withholding in the later part of the year.

Federal tax law does provide ways to avoid the underpayment penalty. If the underpayment is less than $1,000 (referred to as the de minimis amount), no penalty is assessed. In addition, the law provides "safe harbor" prepayments. There are two safe harbors:

1. The first safe harbor is based on the tax owed in the current year. If your payments equal or exceed 90% of what is owed in the current year, you can escape a penalty.
2. The second safe harbor is based on the tax owed in the immediately preceding tax year. This safe harbor is generally 100% of the prior year's tax liability. However, for a higher income taxpayer who has AGI exceeding $150,000 ($75,000 for married taxpayers filing separately), the prior year's safe harbor is 110%.

Example: *Suppose your tax for the year is $10,000 and your prepayments total $5,600. The result is that you owe an additional $4,400 on your tax return. To find out if you owe a penalty, see if you meet the first safe harbor exception. As 90% of $10,000 is $9,000, your prepayments fell short of the mark. You can't avoid the penalty under this exception.*

However, in the above example, the safe harbor may still apply. Assume your prior year's tax was $5,000. As you prepaid $5,600, which is greater than 110% of the prior year's tax (110% = $5,500), you qualify for this safe harbor and can escape the penalty.

If your state has a state tax, the state's de minimis amount and safe-harbor percentage and amount may be different.

This example underscores the importance of making sure your prepayments are adequate, especially if you have a large increase in income. This is common when there is a large gain from the sale of stocks, sale of property, when large bonuses are paid, or when a taxpayer retires.

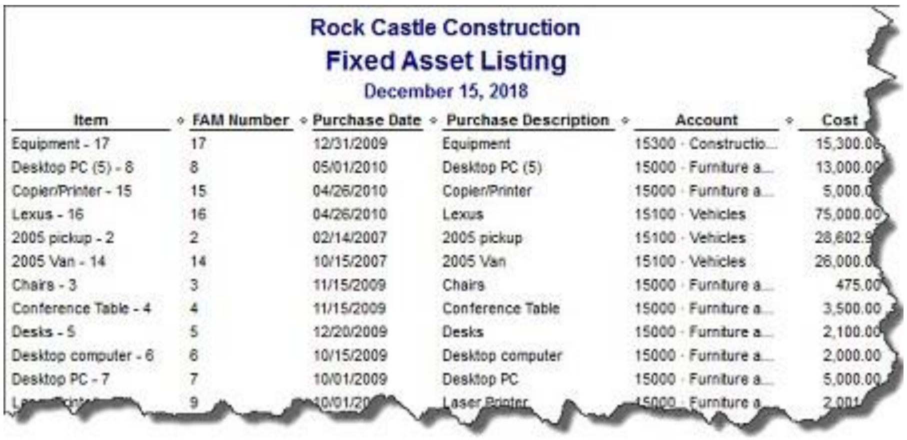
If you have questions regarding your pre-payments or would like to review and adjust your W-4 payroll withholding, W-4P pension withholding, and estimated tax payments to provide the desired tax result for 2014, please give this office a call.

Do You Need to Use QuickBooks' Fixed Asset Tools? The Basics

Managing your company's fixed assets is a complicated process, one that will require some extra assistance.

Much of the work you do in QuickBooks is short-term. You send an invoice and it gets paid. Your purchase order is fulfilled, and the products move into your inventory. You run payrolls and submit their related taxes and other payments.

Managing the life cycle of your fixed assets is an exception. Simply, *fixed assets* are physical entities that you purchase to help your business generate revenue, like property, a vehicle or a commercial oven. By definition, they must be in use for over 12 months.



Rock Castle Construction
Fixed Asset Listing
December 15, 2018

Item	FAM Number	Purchase Date	Purchase Description	Account	Cost
Equipment - 17	17	12/31/2009	Equipment	15300 · Constructio...	15,300.0
Desktop PC (5) - 8	8	05/01/2010	Desktop PC (5)	15000 · Furniture a...	13,000.0
Copier/Printer - 15	15	04/26/2010	Copier/Printer	15000 · Furniture a...	5,000.
Lexus - 16	16	04/26/2010	Lexus	15100 · Vehicles	75,000.00
2005 pickup - 2	2	02/14/2007	2005 pickup	15100 · Vehicles	28,602.
2005 Van - 14	14	10/15/2007	2005 Van	15100 · Vehicles	26,000.
Chairs - 3	3	11/15/2009	Chairs	15000 · Furniture a...	475.00
Conference Table - 4	4	11/15/2009	Conference Table	15000 · Furniture a...	3,500.00
Desks - 5	5	12/20/2009	Desks	15000 · Furniture a...	2,100.00
Desktop computer - 6	6	10/15/2009	Desktop computer	15000 · Furniture a...	2,000.00
Desktop PC - 7	7	10/01/2009	Desktop PC	15000 · Furniture a...	5,000.00
[illegible]	9	[illegible]	Laser Printer	[illegible] · Furniture a...	[illegible]

Figure 1: You'll need our help in depreciating the book value of your fixed assets, but careful recording of them will make your QuickBooks reports, your taxes and your company's worth more accurate.

QuickBooks can help you track these, but both the value of your company and your tax obligations – and the sale price, should you eventually sell them -- are affected by how the book value of your fixed assets is depreciated. It's important that you work closely with us over the life of each one. What you can do on your own, though, is to maintain absolutely accurate records in this area.

Two Paths
The best time to start recording information about a fixed asset is while you're creating a transaction related to its purchase. You can build an item record for it as you're filling out the Item section of **Enter Bills, Write Checks, Enter Credit Card Charges** or **Purchase Order**.

Let's say you're writing a check for a new company truck. You'd go to Banking | Write Checks and fill in the blanks. Click the Items tab below the MEMO field, then click the down arrow in the ITEM field. Scroll up to the top of the list if necessary and select . You'll see this menu:

Figure 2: Keep track of your company's fixed assets by creating item records for them. You can do this as you're entering transactions for their purchase.

Click on **Fixed Asset** to open the **New Item** window.

Transactions Not Required
There may be times when you'll want to create an item record for a fixed asset when you're not processing a transaction. Such situations include:

- Cash purchases
- Transfer of a personal asset to your company
- Purchase of a fixed asset with personal funds, or
- A multi-item purchase.

To do this, click on the **Lists** menu and select **Fixed Asset Item List**. If you're adding a new one, right-click anywhere in the list part of the screen and select **New** (or click the down arrow next to the **Item** button in the lower left of the screen and click **New**). The same **New Item** window that you opened from the check-writing screen appears.

You've already chosen **Fixed Asset** as the **TYPE**, so your cursor should be in the **Asset Name/Number** field. Enter an easy-to-recognize name so that you'll be able to quickly identify it in reports. Select the correct **Asset Account** (ask us if you're not sure) and type a description in the **Purchase Description** field, clicking the correct button for **new** or **used**.

Enter the **Date** purchased, the **Cost** and the **Vendor/Payee**. Don't worry about the **SALES INFORMATION** fields until – and if – you eventually sell the asset.

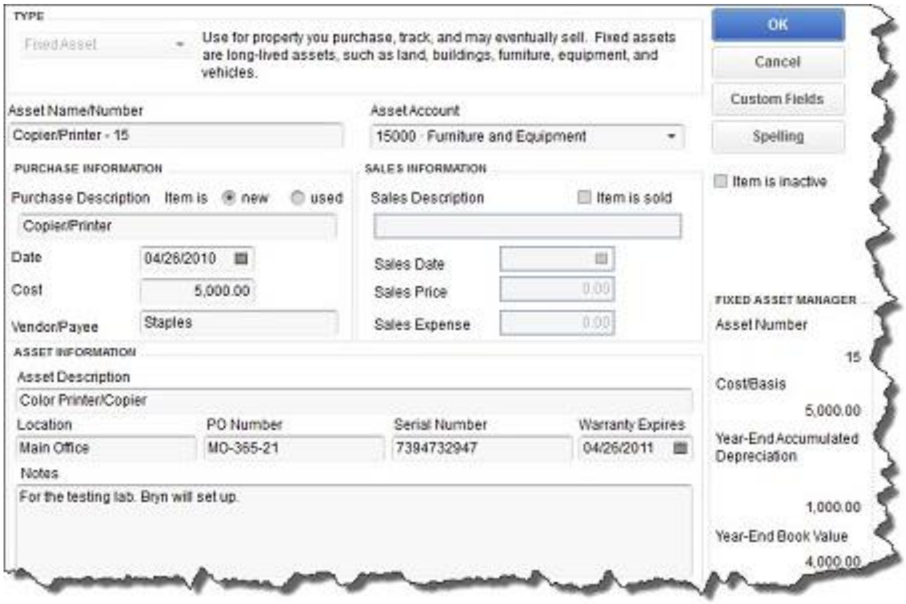


Figure 3: You should be able to complete the New Item window in QuickBooks for your fixed assets on your own, but consult with us on any questions.

Under **ASSET INFORMATION**, enter the **Asset Description** (you can write a lengthier description here), its **Location**, **PO Number** if applicable, **Serial Number** and warranty expiration date. Add **Notes** if you'd like, and you're done – unless you want to incorporate **Custom Fields**. If so, click the **Custom Fields** button in the upper right, then **Define Fields**.

(We can provide the depreciation and book value numbers under **FIXED ASSET MANAGER**.)

Your fixed asset records are critical elements of QuickBooks. You may be storing similar information elsewhere in your office records, but QuickBooks needs it, too, so you'll have a comprehensive accounting of your company's value.