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Tax Penalty For Not Having Insurance Ratchets Up In 2015

Article Highlights:

- Flat dollar amount penalty
- Percentage of income penalty
- Household income
- Modified adjusted gross income
- Tax filing threshold

The penalty for not having minimum essential health insurance for yourself and other members of your tax family takes a substantial jump in 2015. For 2014, the penalty was the **greater of** the flat dollar amount ($95 for each adult plus $47.50 for each child under age 18, but no more than $285) **or** 1% of your household income minus your tax-filing threshold amount. For 2015, those amounts take a substantial jump to $325 for each adult and $162.50 for each child (but no more than $975) or 2% of household income minus the amount of your tax-filing threshold.

Household income - Estimating the penalty requires you to project your household income for 2015. Household income includes the modified adjusted gross income (MAGI) for all members of your household for whom you claim a dependent exemption and who are required to file a tax return. As an example, say a parent has a teenage child who has a part-time job and earns $7,000 for the year. This $7,000 exceeds the child's filing threshold (standard deduction for a single individual plus exemption allowance, but since the parents are claiming the child as a dependent, the child cannot claim his or her own exemption). So the child would be required to file a tax return, and the parents would be required to include the child's MAGI when computing household income.

Modified adjusted gross income – MAGI is your regular adjusted gross income with untaxed Social Security benefits, non-taxable interest and dividends, and the foreign earned income exclusion added back.

Tax Filing Threshold – A taxpayer's tax-filing threshold is the sum of the standard deduction and personal exemptions for the filer and spouse.

Figuring the penalty – Take for example a family of three, including Dad, Mom and their teenage child. The household income for the family is $65,000, including the child's earnings of $7,000, and they are subject to the penalty for the entire year of 2015.

- **The flat dollar amount** (per person) penalty is: **$812.50** ($325 + $325 + $162.50)

- **The percentage of income amount** is household income less their filing threshold times 2%. In this example the tax-filing threshold for 2015 would be $20,600, which is the total of $12,600 (standard deduction for married joint) plus $4,000 each for the filer and spouse (personal exemptions). Note that although the dependent child's income is included in household income (because the child is required to file a return), the child's standard deduction and exemption allowance are not included in the filing threshold amount used in the calculation of the penalty. The percentage of income amount is $888 (($65,000 - $20,600) x 2%)

Thus, in this example, the annual penalty for not being insured for the entire year is **$888**, the greater of the flat dollar amount or the percentage of income. When a family is uninsured for less than a full year, the penalty would be applied on a monthly basis, which for the example would be $74 per month.

If you have questions related to how the penalty might apply to your family, please give this office a call.

Is Your Refund Too High or Do You Owe Taxes? You Probably Need to Adjust Your W-4

Article Highlights:

- Large Refund or Tax Due
- Employers Withhold Based on W-4
- IRS Online Withholding Calculator
- Self-employed Taxpayers

If your income is primarily from wages and you received a very large refund—or worse, if you owed money—then your employer is not withholding the correct amount of tax (but it probably isn't your employer's fault). Sure, you like a big refund, but you have to remember you are only getting your own money back that was over-withheld in the first place. Why not bank it and have access to it all year long instead of providing Uncle Sam with an interest-free loan?

Employers withhold tax based upon the information you provide them on Form W-4, and to adjust your withholding you will need to provide your employer with an updated W-4. Although the W-4 appears to be an easy form to fill out, this is where many taxpayers go wrong because they have other income, itemize their deductions or qualify for various tax credits.

You can solve this problem by using the IRS's online W-4 calculator that helps taxpayers determine the correct amount of allowances to claim on their W-4. It takes into account a multitude of issues, including itemized deductions, other income, tax credits, and tax already withheld.

You will need the following available before using the IRS calculator:

- Your (and your spouse's if you file jointly) most recent pay stub
- A copy of your most recent income tax return

You will be required to estimate some values, so remember the results are only going to be as accurate as the input you provide.

Click Here To Access The IRS Withholding Calculator
http://apps.irs.gov/app/withholdingcalculator/index.jsp

Once you have determined the filing status and allowances to claim using the IRS calculator, download a copy of **Form W-4**, Employee's Withholding Allowance Certificate, fill it in and give it to your employer.

Caution: If you are uncomfortable using the IRS's online calculator, don't understand some of the terminology, or have multiple jobs or a working spouse, you may need professional help to determine the correct number of W-4 allowances. Also the federal W-4 allowances may not translate properly for your state withholding.

Tip: Once your employer has implemented the new W-4 allowance, double-check the withholding to make sure it is approximately what you had intended. It is not uncommon for errors to occur in an employer's payroll department that could lead to unpleasant surprises at tax time.

If you are self-employed, you generally pay estimated taxes instead of having payroll withholding. You may be self-employed and also have salaried employment, or your spouse may have payroll income or be self-employed. There are a multitude of possible combinations. If so, the IRS withholding calculator is not suitable for your needs, and you will probably need professional assistance in determining a combination of estimated taxes and payroll withholding.

Please call this office for assistance in preparing your W-4s and determining your estimated tax payments.

Should You Keep Home Improvement Records?

Article Highlights:

- Keeping home improvement records
- Home gain exclusion amounts
- Records may be required to avoid tax

Many taxpayers don't feel the need to keep home improvement records, thinking the potential gain will never exceed the amount of the exclusion for home gains ($250,000 or $500,000 if both filer and spouse qualify) if they meet the 2-out-of-5-year use and ownership tests. Here are some situations when having home improvement records could save taxes:

(1) The home is owned for a long period of time, and the combination of appreciation in value due to inflation and improvements exceeds the exclusion amount.

(2) The home is converted to a rental property, and the cost and improvements of the home are needed to establish the depreciable basis of the property.

(3) The home is converted to a second residence, and the exclusion might not apply to the sale.

(4) You suffer a casualty loss and retain the home after making repairs.

(5) The home is sold before meeting the 2-year use and ownership requirements.

(6) The home only qualifies for a reduced exclusion because the home is sold before meeting the 2-year use and ownership requirements.

(7) One spouse retains the home after a divorce and is only entitled to a $250,000 exclusion instead of the $500,000 exclusion available to married couples.

(8) There are future tax law changes that could affect the exclusion amounts.

Everyone hates to keep records, but consider the consequences if you have a gain and a portion of it cannot be excluded. You will be hit with capital gains (CG), and there is a good chance the CG tax rate will be higher than normal simply because the gain pushed you into a higher CG tax bracket. Before deciding not to keep records, carefully consider the potential of having a gain in excess of the exclusion amount.

If you have questions related to the home gain exclusion or questions about how keeping home improvement records might directly affect you, please give this office a call.

Is Your Hobby a For-Profit Endeavor?

Article Highlights:

- Hobby Versus For-Profit Endeavor

- Factors Used To Determine For-Profit
- Three out of Five Rule
- Hobby Deductions

Whether an activity is a hobby or a business may not be apparent to the customers of the endeavor, but distinguishing the difference is necessary for tax purposes because the tax treatments are substantially different. The IRS provides appropriate guidelines when determining whether an activity is engaged in for profit, such as a business or investment activity, or if it is engaged in as a hobby.

Internal Revenue Code Section 183 (Activities Not Engaged in for Profit) limits deductions that can be claimed when an activity is not engaged in for profit. IRC 183 is sometimes referred to as the "hobby loss rule."

This article provides information that is helpful in determining if an activity qualifies as an activity engaged in for profit and what limitations apply if the activity was not engaged in for profit.

Is your hobby really an activity engaged in for profit? In general, taxpayers may deduct ordinary and necessary expenses for conducting a trade or business or for the production of income. Trade or business activities and activities engaged in for the production of income are activities engaged in for profit.

The following factors, although not all-inclusive, may help you determine whether your activity is an activity engaged in for profit or a hobby:

- Does the time and effort put into the activity indicate an intention to make a profit?
- Do you depend on income from the activity?
- If there are losses, are they due to circumstances beyond your control or did they occur in the start-up phase of the business?
- Have you changed methods of operation to improve profitability?
- Do you have the knowledge needed to carry on the activity as a successful business?
- Have you made a profit in similar activities in the past?
- Does the activity make a profit in some years?
- Do you expect to make a profit in the future from the appreciation of assets used in the activity?

An activity is presumed to be engaged in for profit if it makes a profit in at least three of the last five tax years, including the current year (or at least two of the last seven years for activities that consist primarily of breeding, showing, training, or racing horses).

If an activity is not for profit, losses from that activity may not be used to offset other income. An activity produces a loss when related expenses exceed income. The limit on not-for-profit losses applies to individuals, partnerships, estates, trusts, and S corporations. It does not apply to corporations other than S corporations.

Hobby deductions If it is determined that your activity is not for profit, allowable deductions cannot exceed the gross receipts for the activity.

Deductions for hobby activities are claimed as itemized deductions on Schedule A and must be taken in the following order and only to the extent stated in each of the three categories:

- Expenses that a taxpayer would otherwise be allowed to deduct, such as home mortgage interest and taxes, may be taken in full.

- Deductions that don't result in an adjustment to the basis of property, such as advertising, insurance premiums, and wages, may be taken next, to the extent that gross income for the activity is more than the deductions from the first category.

- Deductions that reduce the basis of property, such as depreciation and amortization, are taken last, but only to the extent that gross income for the activity is more than the deductions taken in the first two categories.

If you have questions related to your specific business or hobby circumstances, please give this office a call.

Do I Have to File a Tax Return?

Article Highlights:

- When You Are Required to File
- Self-Employed Taxpayers
- Filing Thresholds
- Benefits of Filing Even When Not Required to File
- Refundable Tax Credits

This is a question many taxpayers ask during this time of year, and the question is far more complicated than people believe. To fully understand, we need to consider that there are times when individuals are **REQUIRED** to file a tax return, and then there are times when it is to individuals' **BENEFIT** to file a return even if they are not required to file.

When individuals are required to file:

- Generally, individuals are required to file a return if their income exceeds their filing threshold, as shown in the table below. The filing thresholds are the sum of the standard deduction for individual(s) and the personal exemption for the taxpayer and spouse (if any).

- Taxpayers are required to file if they have net self-employed income in excess of $400, since they are required to file self-employment taxes (the equivalent to payroll taxes for an employee) when their net self-employed income exceeds $400.

- Taxpayers are also required to file when they are required to repay a credit or benefit. For example, taxpayers who underestimated their income when signing up for insurance on the marketplace and received a higher advanced premium tax credit than they were entitled to are required to repay part of it.

- Filing is also required when a taxpayer owes a penalty, even though the taxpayer's income is below the filing threshold. This can occur, for example, when a taxpayer has an IRA 6% early withdrawal penalty or the 50% penalty for not taking a required IRA distribution.

2014 – Filing Thresholds

Filing Status	Age	Threshold
Single	Under Age 65 Age 65 or Older	$10,150 11,700
Married Filing Jointly	Both Spouses Under 65 One Spouse 65 or Older Both Spouses 65 or Older	$20,300 21,500 22,700
Married Filing Separately	Any Age	3,950
Head of Household	Under 65 65 or Older	$13,050 14,600
Qualifying Widow(er) with Dependent Child	Under 65 65 or Older	$16,350 17,550

When it is beneficial for individuals to file: There are a number of benefits available when filing a tax return that can produce refunds even for a taxpayer who is not required to file:

- *Withholding refund* – A substantial number of taxpayers fail to file their return even when the tax they owe is less than their prepayments, such as payroll withholding, estimates, or a prior overpayment. The only way to recover the excess is to file a return.

- *Earned Income Tax Credit (EITC)* – If you worked and did not make a lot of money, you may qualify for the EITC. The EITC is a refundable tax credit, which means you could qualify for a tax refund. The refund could be as high as several thousand dollars even when you are not required to file.

- *Additional Child Tax Credit* – This refundable credit may be available to you if you have at least one qualifying child.

- *American Opportunity Credit* – The maximum credit per student is $2,500, and the first four years of postsecondary education qualify. Up to 40% of that credit is refundable when you have no tax liability and are not required to file.

- *Premium Tax Credit* – Lower-income families are entitled to a refundable tax credit to supplement the cost of health insurance purchased through a marketplace. To extent the credit is greater than the supplement provided by the marketplace, it is refundable even if there is no other reason to file.

DON'T PROCRASTINATE! There is a three-year statute of limitations on refunds, and after it runs out, any refund due is forfeited. The statute is three years from the due date of the tax return. So the refund period expires for 2014 returns, which were due in April of 2015, on April 16, 2018.

For more information about filing requirements and your eligibility to receive tax credits, please contact this office.

Are You Leaving Tax Money On The Table?

Article Highlights:

- Unclaimed Refunds
- Over-Withholding
- Earned Income Tax Credit
- Child Tax Credit
- American Opportunity Credit (AOTC)
- Premium Tax Credit (PTC)
- Refund Statute of Limitations

Each year the IRS reports about $1 billion in unclaimed refunds for individuals who did not file a tax return. The IRS estimates that approximately half of the unclaimed refunds are for amounts greater than $600. You may not have filed, thinking that because you don't itemize and your employer is withholding tax that you don't need to file. But there is a good chance you are leaving money on the table by not filing. Consider the following:

- **Over-Withholding -** Your employer may have withheld more than you owe, as withholding is not an exact science. But you have to file to get the excess back.

- **Earned Income Tax Credit (EITC)** – An EITC is a credit for lower-income taxpayers. If you worked and earned less than $52,427 last year, you could receive the EITC as a refund if you qualify with or without a child. The credit can be as much $6,143 and is fully refundable. This is a very lucrative credit, but you have to file to benefit from it.

- **Child Tax Credit** – If you have at least one child under the age of 17 you probably qualify for the Child Tax Credit. Generally this credit is non-refundable (can only be used to reduce taxes owed). However, if you work, your income is low to moderate and you don't use the full credit amount to offset taxes, a portion of the $1,000 per child credit may be refundable.

- **American Opportunity Tax Credit (AOTC) -** The AOTC is available for four years of post-secondary education expenses and can result in a credit of up to $2,500 per eligible student enrolled at least half time for at least one academic period during the year. Up to 40% of the credit is refundable, so even if you don't owe any taxes, you may still qualify for the credit. But to claim the credit you must file a return.

- **Premium Tax Credit (PTC)** – If you acquired your health insurance last year through a government marketplace, you probably qualify for an insurance subsidy in the form of the PTC. But you have to file to get the credit. If you received the PTC in advance to reduce your premiums, as did most individuals who used a health insurance marketplace, you must file a tax return and reconcile the advance PTC against the actual PTC.

If you have not filed in the past, the statute of limitations for a refund is 3 years from the unextended due date of the return, so if you have a refund coming for past years you should file before the statute expires. For example, to claim a refund for a 2012 return you will need to file the 2012 return no later than Wednesday, April 15, 2016, or the refund is gone forever.

This firm has expertise in preparing tax returns for all years, including past years, so please contact this office for assistance so you can get the refunds you are entitled to.

Tax Tips for Students with a Summer Job

Many students hold a summer job during their time off from school. Here are some tax issues that should be considered when working a summer job.

1. Completing Form W-4 When Starting a New Job – This form is used by employers to determine the taxes that will be withheld from your paycheck. Taxpayers with multiple summer jobs will want to make sure all of their employers are withholding an adequate amount of taxes to cover their total income tax liability. Generally, a student who is claimed as a dependent of another with income only from summer and part-time employment can earn as much as $6,300 (the standard deduction amount) without being liable for income tax. However, if the student is a dependent and has other investment income, the tax determination becomes more complicated and subject to special rules.

2. Tips – If the student works as a waiter, camp counselor, or some other common summer jobs, the student may receive tips as part of the summer income. All tip income received is taxable income and is therefore subject to federal income tax. Employees are required to report tips of $20 or more received while working with any one employer in any given month. The reporting should be made in writing to the employer by the tenth day of the month following the receipt of tips. The IRS provides publication 1244 [http://www.irs.gov/pub/irs-pdf/p1244.pdf] that can be used to record tips for a month on a daily basis. The employer withholds FICA (Social Security and health insurance) and income taxes on these reported tips and then includes the tips and wages on the employee's W-2.

3. Cash Jobs – Many students do odd jobs over the summer and are paid in cash. Just because the job is paid in cash does not mean that it is tax-free. Unfortunately, the income is taxable and may be subject to self-employment taxes (see below). These earnings include income from odd jobs like babysitting and lawn mowing.

4. Self-Employment Tax – When an individual works for an employer, the employer withholds FICA (Social Security taxes) and Medicare taxes from the employee's pay, matches the amount dollar for dollar, and remits the combined amount to the government. Self-employed workers are required to pay the combined employee and employer amounts themselves (referred to as self-employment tax) if their net earnings are $400 or more. This tax pays for their benefits under the Social Security system. Even if a worker is not liable for income tax, this 15.3% tax may apply.

5. ROTC Students – Subsistence allowances paid to ROTC students participating in advanced training are not taxable. However, active duty pay—such as pay received during summer advanced camp—is taxable.

6. Newspaper Carrier or Distributor – Special rules apply to services performed as a newspaper carrier or distributor. An individual is a direct seller and treated as self-employed for federal tax purposes under the following conditions:

☐ The person is in the business of delivering newspapers;

☐ All of the pay for these services directly relates to sales rather than to the number of hours worked; and

☐ A written contract controls the delivery services and states that the distributor will not be treated as an employee for federal tax purposes.

7. Newspaper Carriers or Distributors Under Age 18 – Generally, newspaper carriers or distributors under age 18 are not subject to self-employment tax.

Accounting Terms: Understanding the accounting term EBITDA and how to use it.

Article Highlights

- Definition of EBITDA
- Use EBITDA to compare businesses
- One gauge of a business's financial health

The accounting term EBITDA is an acronym that is widely used. It stands for Earnings Before Interest, Taxation, Depreciation, and Amortization, and it is an extremely helpful tool for understanding how one business or industry is faring based on comparing it to others that are doing the same thing. EBITDA's value lies in the fact that it gives a very quick assessment of a business's earnings potential; but, because it is not part of generally accepted accounting principles, or GAAP, it is frequently excluded from a business's official financial statement.

Still, when a business owner is looking to attract additional investment or a potential buyer, EBITDA is often what is provided because it gives an easily understandable glimpse at earnings potential using existing information. With EBITDA, those who are assessing different businesses for possible investment are able to get an at-a-glance look at how the company is performing and use it to compare the business against companies that may be capitalized or accounting differently. The calculation is a simple formula, but requires access to the following information about a business:

- Income
- Expenses (excluding tax, interest, depreciation and amortization)
- Interest
- Taxes
- Depreciation of operational assets, such as equipment
- Amortization of intangible assets, such as patents

With those numbers in hand, the formula is:

EBITDA = Revenue - Expenses (excluding tax, interest, depreciation and amortization)

Or, more simply, EBITDA equals net income plus interest, taxes, depreciation and amortization.

Whichever way you approach it, it is important to know that, as useful as EBITDA can be, it is only one way to gauge an organization's financial health and potential.

Making the decision to invest in or purchase a business requires a comprehensive view that ensures that you are well informed.

If you need additional assistance calculating a small business EBITDA or other accounting ratios, contact this office today to set up a consultation.