



**DOLINKA, VANNOORD & COMPANY**

A PROFESSIONAL LIMITED LIABILITY PARTNERSHIP

C e r t i f i e d   P u b l i c   A c c o u n t a n t s



# Business and Personal Tax Update

**A 2015 SUMMARY AND ITEMS TO WATCH  
OUT FOR IN 2016.**



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# Preventing Americans From Tax Hikes (PATH)



## **Individual Highlights.**

- \$250 Teacher deduction
- Tuition deduction from AGI
- Residential Energy Credit
- Electric vehicle credit
- Income exclusion for debt discharge on principal residence
- Distribution from IRA to charity (2 weeks to use it)
- Mortgage insurance itemized deduction
- State/Local sales tax itemized deduction instead of income tax deduction
- Capital gain real property conservation contributions at FMV of easement
- American Opportunity Tax Credit \$2,500 permanent.

# 2015 Health Care Changes



- **Must have “minimum essential health coverage” for self and dependents**
  - Cannot have more than a three-month gap in coverage during the year.
  - May qualify for additional premium credits or must pay back insurance subsidies, based on income (Form 8962)
  - **2015 Penalty: Greater of:**
    - 2% of household income or
    - \$325 per adult and \$162.50 per child, up to \$975

# 2015 Health Care Changes



- **Health Care**

- Health coverage for self, spouse and/or all dependents?
- Were all covered the entire year? If not, what months?
- Did you receive an exemption?
- Did anyone receive a subsidy from the Exchange?

# Other 2015 items your tax preparer should watch for with high-income individual taxpayers



- **FBAR reporting requirements** (*Foreign Bank and financial Account Report*)
  - Have signature authority or a financial interest in a foreign bank account?
  - Have significant foreign assets (your French villa in Nice?)
  - Additional tax filings required, non-compliance generates horrendous penalties
  - Voluntary disclosure programs available to mitigate penalties
- **Additional .9% Medicare tax on Wages over \$200,000**
- **3.8% Net Investment income Surtax on investment and passive income.**

# IRS Direct Pay

- IRS Direct Pay – Free authorized bank withdrawal from a checking or savings account. Good for return payments and estimates.
- IRS Debit/Credit Card Payment – Additional processing fees assessed on tax payment.

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## Payments

Payments Banner Image

### Make a Payment

Payments Topics

- Understand Your IRS Notice
- Foreign Electronic Payments
- Payment of User Fees (IVES, Historic Easement, U.S. Residency)

**Pay Directly from Your Bank Account**

If you're an individual taxpayer, IRS Direct Pay offers you a free, secure payment method.

**IRS Direct Pay**

**Pay with Your Debit or Credit Card**

Choose an approved payment processor to make a secure tax payment online or by phone.

**Pay by Card**

**More Payment Options**

**Can't Pay Now?**

**What if I Don't Pay?**  
We can take certain actions to collect your

[Español](#)

# MI E-Pay

## www.michigan.gov/taxes



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### Types of e-Payments

- [Michigan Individual Income Tax](#)

E-payments can be made for a 2013 Michigan Individual Income Tax Return (MI-1040) when tax is owed. Payment can also be made for 2013 Proposed Tax Due letters sent to you by the Michigan Department of Treasury.

- [Michigan Estimated Income Tax for Individuals](#)

E-payments can be made for third and fourth quarter 2014 estimated payments. You will be able to choose which quarter the payment applies to by choosing the Payment Type from the drop-down list.

- [Michigan Individual Income Tax Extension](#)

E-payments can be made for individual income tax extensions for the 2014 tax year.

**Note:** An extension of time to file is not an extension of time to pay.

### e-Payment Options

#### ***Previous Year's Michigan Individual Income Tax Filers Only***

You may choose to make an electronic payment (eCheck) from a checking or savings account if the taxpayer has filed a Michigan Individual Income Tax Return for the previous tax year. There is no fee to use this payment option.

[Make an eCheck e-Payment](#)

#### ***All Michigan Individual Income Tax Filers***

All Michigan Individual Income Tax filers may choose to make a payment using a credit or debit card. Credit card payments will be assessed a convenience fee of 2.35% of the total payment amount. Debit card payments will be charged a flat fee of \$3.95.

[Make a Debit or Credit Card e-Payment](#)

### e-Payment Inquiry

Please click the button below to inquire about a previously made Michigan Individual Income Tax e-Payment. You will need the confirmation number and e-mail address associated with that payment.

[Individual Income Tax e-Payment Inquiry](#)



# Grand Rapids E-Pay services



## **Taxes Due/Estimates:**

- **Credit Cards**

- Processed by [www.officialpayments.com](http://www.officialpayments.com)
- 3% additional fee

- **Direct withdrawal from Checking/Savings**

- Processed by [www.miniconnect.com/grandrapids](http://www.miniconnect.com/grandrapids)
- Several steps needed to set up account

# Preventing Americans From Tax Hikes (PATH)

## Business Highlights.

- Code Sec. 179 \$500K expense \$2M overall investment cap.
- Research & Development Credit.
  - New to You vs. New to World.
  - Also allowed for AMT
- 15 yr Straight-line for Qualified Leasehold, restaurant & retail
- Bonus Depreciation (New Property)
  - 50% 2015-17
  - 40% 2018
  - 30% 2019
  - 0% thereafter

# Preventing Americans From Tax Hikes (PATH)

## **Business Highlights.**

- **100% Gain Exclusion on Qualified Small Business Stock**
  - Held for more than 5 years
  - C Corp Stock only
- **S Corp Built In Gains Tax holding period reduced to 5 Years**
- **Wage credit for active duty service men/women**
- **Work Opportunity Tax Credit through 2019**

# Tax issues affecting Business



**WHAT SHOULD YOU BE  
WATCHING IN YOUR  
BUSINESS?**

# 2015 Business Changes Generate Additional Compliance Work



- **Finalized Repairs & Maintenance Regulations.**
- **What is a deduction versus an asset? Need a writing capitalization policy. Most don't. Could spell issues upon audit. ( Stock sale, buyer inherits this issue.)**
- **Affordable Care Act forms 1095**

# #1 Source of Business Audit Adjustments by IRS



- **Lack of Recordkeeping:**
  - **Automobile Expenses**
    - The Law is that you must have contemporaneous documentation of business use of vehicles in order to deduct business expenses.
    - Trip Documentation includes : Date, amount (miles), destination, purpose of trip
    - Comparison of total miles - business miles = personal use.
    - No record of personal/business use? IRS can deem all use personal, i.e. No business deduction
      - Get an oil change at year end and keep the receipts
  - **Travel & Entertainment Expenses**
    - Cannot be “extravagant”
    - Must be documented as to date, amount, place, persons met, business purpose of entertainment/travel or expense is disallowed

# #1 Defense against Business Audit Adjustments



- **Documentation – Adequate, clear business records kept in a business manner**
  - **Organized**
    - Proper organized documents kept as a perpetual record.
  - **Run in a business manner**
    - Generate Profit/loss statements
    - Partnerships, C/S-corporations generating balance sheets, income statements, tracking investor basis in business
  - **Separate from personal finances**
    - Separate checkbook, books and records
    - Clear documentation of transfers (investment, distribution) between personal and business activity.

# Buying/Selling a Business – Issues from a tax perspective



**WHY YOUR CLIENT'S  
CPA WANTS TO BE PART  
OF THE NEGOTIATIONS**



# Selling Assets or Selling Stock?



- **Stock – Seller advantages**
  - One level of tax at shareholder level (C & S-corporations)
  - Generally long-term capital gain rates (20% Federal)
  - No allocation negotiations
- **Stock – Buyer disadvantages**
  - Cannot allocate purchase price to assets and recover cost in depreciation/amortization. Cost locked into stock investment
  - Depreciation/amortization continues at previous owner's historical cost. If fully depreciated equipment, no tax advantage
  - Legal: All “skeletons in the closet “ come with the stock purchase

# Selling Assets or Selling Stock?



- **Assets – Buyer advantages**
  - Purchase price allocated over all assets/goodwill and can be recovered in additional depreciation/amortization
  - New company leaves most former company legal issues behind and can tailor accounting methods to new owner's needs.
  - Allocation negotiations and appraisals can skew prices toward short-lived equipment, maximizing tax benefits
- **Assets – Seller disadvantages**
  - Purchase price allocated to equipment assets may result in ordinary income recapture rather than capital gain.
  - Complex negotiation of purchase price allocation among assets for tax purposes.
  - C-Corporations will incur a double tax: tax on asset sale inside corporation and shareholder tax on distribution of remaining cash in liquidation of company.

# When could selling assets be advantageous to a Seller?



- **C-corporation seller with large net operating losses.**
  - Gain on asset sales offset by NOLs so little (if any) corporate tax.
- **S-corporations/Partnerships/Sole Proprietorships with very few fixed assets (Service companies)**
  - Very little equipment would yield little ordinary income recapture.
  - Bulk of the company value in goodwill, which would be capital gain income to seller.

# When could buying stock be advantageous to a Buyer?



- Buyer is a C-corporation and can easily incorporate existing corporation into consolidated group on a non-taxable basis using merger/reorganization options under IRC Section 368 regulations.
- Significant contracts with customers/vendors /employees that might be hard to transfer.
- Sufficient indemnity provisions built into transaction to shield buyer from undisclosed future liabilities/claims.
- Look into 338(h)(10) Election.
  - Tax Treatment – Asset buy/sell
  - Legal Treatment – Stock buy/sell
  - Best fit when many contracts and heavy goodwill are involved

# Where A CPA Can Help



- **Projecting tax effects of sale/purchase negotiation on business and/or owners.**
- **Determination of full sales price and net to seller**
- **How debt assumption effects the sale/purchase**
- **Tax effect and cash flow of installment sales/purchases**
- **Proper interest rates on installment instruments for IRS purposes**
- **Sales between related parties – special rules and complications**

# IRS Form 8594



- Allocation of purchase/sales price among asset components
  - In asset sales, buyer and seller must agree on allocation and **MUST** attach Form 8594 showing allocation to their returns in the year of sale.
- Seven Classes.
  - I – Cash
  - II – CD's Investments
  - III – Debt Instruments and AR
  - IV – Inventory
  - V – Equipment etc.
  - VI – Intangibles Except Goodwill
  - VII - Goodwill

# IRS Form 8594



- **Must use Residual Method.**
- **Allocate purchase price in this order using FMV as cap. (can be lower).**
  - Class I
  - Class II
  - Class III
  - Class IV
  - Class VI
  - Class VII
  - Class V
- **Note that Equipment is last.**

# IRS Form 8594



- FMV is highest price an asset would sell for in the open, free market where buyer and seller are knowledgeable, motivated to sell and no pressure is applied to either.
- Find at least three examples of nearly the same identical items for sale. Average them.
- Adjust for any unique element.
- Have the item appraised to check your number.



# IRS Form 8594



## **Difference Between Appraised Value & Fair Market Value.**

- The big difference between appraised value and fair market value is that the latter is more of a hypothetical figure. A qualified professional can look at the data and provide an appraisal based on standard formulas, but the fair market value calculation is open to interpretation. You don't know the true fair market value of something until it's sold, and even then it's tough to tell, because no buyer and seller have perfect information on the other.

# IRS Form 8594



## **Difference Between Appraised Value & Fair Market Value.**

- A seller may secretly be desperate to sell his business because of an undeclared illness that will keep him from running it. A location that may be seen as a negative by both a professional appraiser and a seller may be a positive in a buyer's calculations because of its proximity to her other operations, such as a warehouse or manufacturing facility.

# Thank You!



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