



DOLINKA, VANNOORD & COMPANY

A PROFESSIONAL LIMITED LIABILITY PARTNERSHIP

Certified Public Accountants



Business and Personal Tax Update

**A 2014 SUMMARY AND ITEMS TO WATCH
OUT FOR IN 2015.**



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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



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Extended 2014 1040 Provisions



**Let's change the law retroactively at the last minute
(Dec. 16, 2014, to be exact) and only for 2014.**

- \$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
- 50% Bonus depreciation
- Expanded 179 deduction (\$500M on 1st \$2 million in qualified purchases)
- R&D Credit

Other 2014 Changes



- **Same-sex Marriage (Recognized for US, not MI)**
 - Married to same-sex partner in state that recognizes such marriages?
 - Not in a domestic partnership, civil union, other state-defined relationship? (Not married for federal purposes; but may be able to file joint in some states (CA, for example))
- **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?

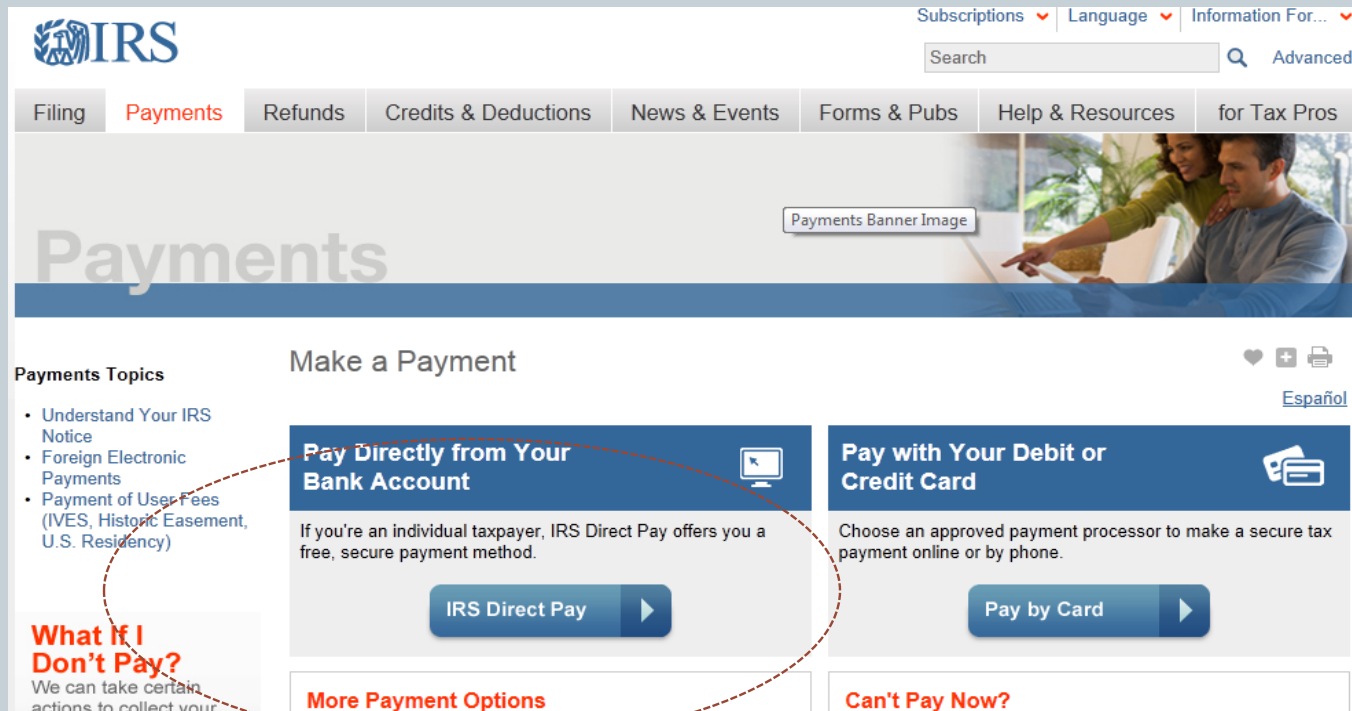
Other 2014 items your tax preparer should watch for with high-income individual taxpayers



- **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.**

New – 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.



The screenshot shows the IRS website's 'Payments' page. At the top, there is a navigation bar with the IRS logo, a search bar, and links for Subscriptions, Language, and Information For... Below this is a secondary navigation bar with tabs for Filing, Payments (highlighted in red), Refunds, Credits & Deductions, News & Events, Forms & Pubs, Help & Resources, and for Tax Pros. A banner image shows a couple looking at a laptop, with a label 'Payments Banner Image' overlaid. The main content area is titled 'Payments' and features a 'Make a Payment' section. On the left, there are 'Payments Topics' including 'Understand Your IRS Notice', 'Foreign Electronic Payments', and 'Payment of User Fees (IVES, Historic Easement, U.S. Residency)'. The 'Make a Payment' section has two main options: 'Pay Directly from Your Bank Account' and 'Pay with Your Debit or Credit Card'. The 'Pay Directly from Your Bank Account' option is circled in red and includes the text 'If you're an individual taxpayer, IRS Direct Pay offers you a free, secure payment method.' and a button labeled 'IRS Direct Pay'. The 'Pay with Your Debit or Credit Card' option includes the text 'Choose an approved payment processor to make a secure tax payment online or by phone.' and a button labeled 'Pay by Card'. At the bottom, there are links for 'More Payment Options' and 'Can't Pay Now?'. A 'Español' link is also visible in the top right of the main content area.

MI E-Pay

www.michigan.gov/taxes



Preguntas más
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Español

Michigan Business
Tax

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Fuel and Tobacco
Taxes

Tax Practitioners

Corporate Income Tax

Reference

Treasury

Search for Forms

Search by form number
or key word for
Treasury Forms.

GO

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
- 3% additional fee

- **Direct withdrawal from Checking/Savings**

- Processed by www.miniconnect.com/grandrapids
- Several steps needed to set up account

2014 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)
 - **2014 Penalty: Greater of:**
 - 1% of household income or
 - \$95 per adult and \$47.50 per child, up to \$285
 - **2015 Penalty: Greater of:**
 - 2% of household income or
 - \$325 per adult and \$162.50 per child, up to \$975

Other 1040 Changes



- **2015-IRA rollovers now limited to one per year/per person on a aggregate basis. (Announcement 2014-32)**
 - 2014 was limited to one/year on an IRA-by-IRA basis
 - Does not affect Roth conversions, trustee-to-trustee transfers (including checks issued payable to recipient IRA trustee), and rollovers from qualified plans to IRAs.
 - If IRA rollover begun in 2014 and concluded in 2015, it will not count against the one per year limit.

Proposals Floated in Tax Reform (Congress)/President's Budget



- **Individuals**

- Capital gains tax to 24.2%. (With 3.8% NII, effective rate is 28%)
- Enhanced Child Care Credit (\$3,000/child)
- Education credit simplification
- “Buffet Rule”: Minimum 30% tax on earnings for high-income taxpayers (more than 1 million)
- Capital gain tax on appreciated property gifted or inherited

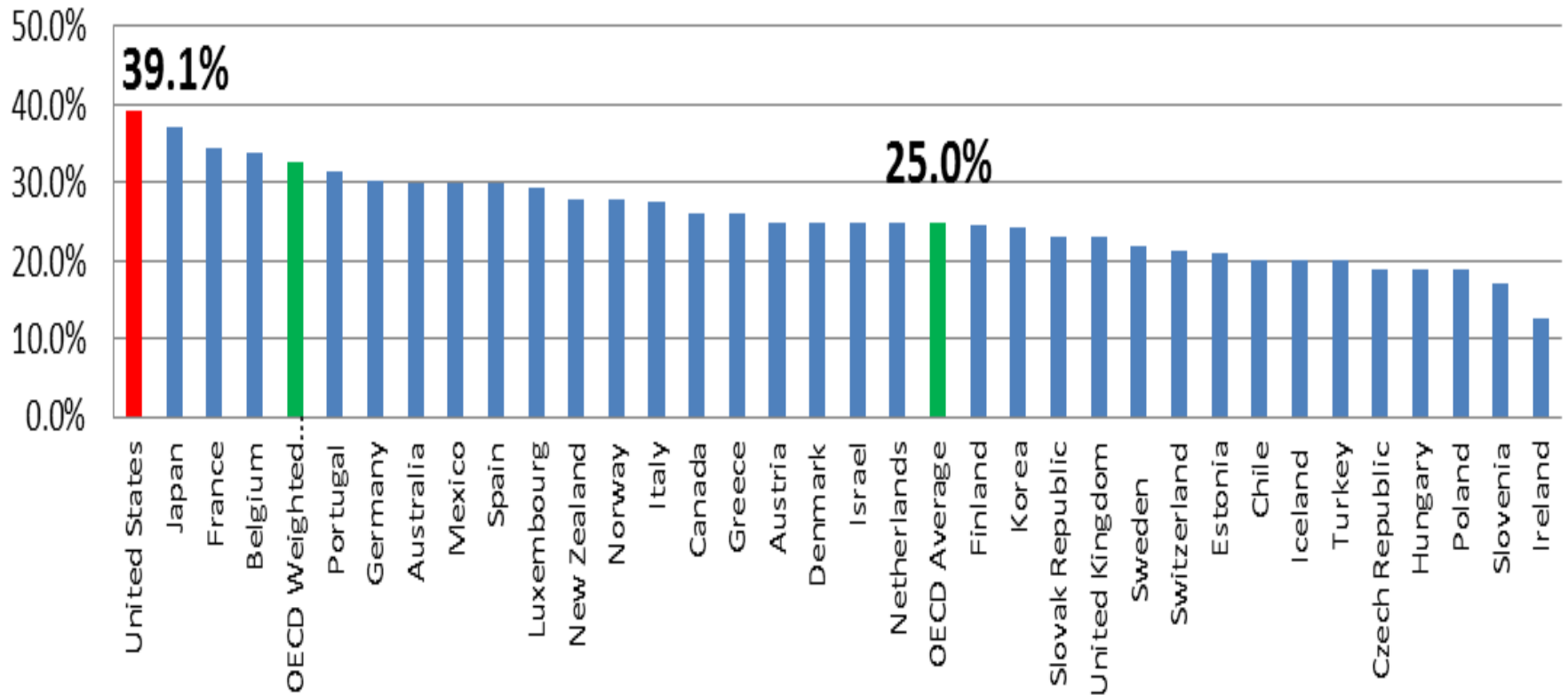
- **Business**

- Corporate Tax rate reduced (25%? 28%?)
- LIFO repeal is on the table
- DEAD: Bonus Depreciation will be history (finally).
- Sec. 179: \$5M to \$1MM on first \$2MM in purchases

Corporate Rates Around the World



Top Statutory Corporate Tax Rate by OECD Nation, 2013



Tax issues affecting Business



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

2014 Business Changes Generate Additional Compliance Work



- **FACTA withholding** (Foreign Account Tax Compliance Act)
 - Have you transferred funds to anyone at a foreign address for interest, dividends, rents, royalties?
 - 30% federal withholding may be required unless your vender is exempt. (Form W-8BEN-E)
- **Finalized Repairs & Maintenance Regulations**
 - IRS issued regulations attempting to define what's a repair and what's an asset after decades of arguing in court.
 - Regulations generally require each business to have a capitalization policy.
 - Change in accounting methods (Form 3115) may be required on most business tax filings for 2014.

#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.

New IRS Focus on S-corporation Shareholder Compensation



- **C-corporation issue: Excess shareholder compensation reducing corporate income (tax) to achieve one level of taxation.**
- **S-Corporation shareholder compensation issues:**
 - **Too Low: Evasion of payroll tax liabilities**
 - **Too High: Excess Compensation issues similar to C-Corporations, “pumping up” Social Security just prior to retirement?**
 - **Multiple shareholders, some too high, some too low: Manipulating earnings to make preferential distribution of income different than ownership? May result in IRS determining there is a disguised “second class” of preferential stock, reclassifying wages as dividends, and terminating the S-corporation election.**

New IRS Focus on S-corporation Shareholder Compensation



- **What should be done?**
 - Compensation should be based on activities performed for the company, company responsibilities, and time spent
 - Bonuses should be based on objective performance targets achieved and formulas.
 - Comparison to published data on salaries in similar industries, duties and profitability.
 - Make-up salary is allowed (within reason) for underpayment of compensation in prior years. (Bonus for \$1/year salary for CEO in loss years)
- **S-corporations pay tax on shareholder(s) returns. Should I bonus a tax distribution (e.g., 40% of earnings) as wages to depress earnings or as a shareholder distribution of accumulated earnings?**
 - Since the distribution is based on ownership (return on investment) and not personal services, IRS generally frowns on this type of distribution running through payroll.

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.
- 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

Thank You!



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