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TAX TIPS & news

This Issue Includes:

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Forgot Something on Your Tax Return? It's Not Too Late to Amend the Return

If you discover that you forgot something on your tax return, you can amend that return after it has been filed. The need to amend can be because of:

- Receiving an unexpected or amended K-1 from a trust, estate, partnership, or S-corporation.
- Overlooking an item of income or receiving a corrected 1099.
- Failing to claim the correct advanced premium credit because of an incorrect 1095-A.
- Forgetting about a deducible expense.
- Forgetting about an expense that would qualify for a tax credit.

These are among the many reasons individuals need to amend their returns, whether it is for the just-filed 2014 return or prior year returns.

Here are some key points when considering whether to file an amended federal (Form 1040X) or state income tax return.

1. If you are amending for a refund, you should be aware that refunds generally won't be paid for returns if the three-year statute of limitations from the filing due date has expired. Thus, with the exception of amending a return to carry back a business net operating loss (NOL), the IRS will pay refunds only on returns from 2012 through 2014. Some states have a longer statute. The last day to file an amended 2012 return for a refund is April 15, 2016.
2. Generally, you do not need to file an amended return to correct math errors you made on the return. The IRS or state agency will automatically make those corrections. Also, do not file an amended return because you forgot to attach tax forms such as W-2s or schedules. The IRS or state agency will send a request asking for the missing forms.
3. If you are filing to claim an additional refund, wait until you have received your original refund before filing Form 1040X. You may cash that check while waiting for any additional refund.
4. If you amend returns and owe additional tax, you will be subject to interest and penalty charges. Interest is charged on any tax not paid by the due date of the original return, without regard to extensions.
5. When amending multiple returns, send them in separate envelopes. Sometimes when filed together, they are mistaken for a single return, and the additional returns filed in the same envelope are not processed.
6. If the changes involve another schedule or form, it must be completed and included with the amended return. In addition, it may be appropriate to include documentation to avoid subsequent correspondence from the IRS or state agency.
7. A detailed explanation of the changes must also be attached. This is required to explain to the processing staff the reason for the amendment. An insufficient explanation can lead to additional correspondence and delays.
8. Depending on why you file an amended federal return, you may be required to amend your state return. However, if the federal amendment is filed to claim or correct a tax credit that the state does not have, no state amended return will likely need to be filed. In most other circumstances, you will need to amend the state return as well as the federal.

Using the Home Sale Gain Exclusion for More than Just Your Home

With careful planning, and provided the rules are followed, the tax code allows the home sale gain exclusion every two years.

Let's assume you own a home, perhaps a second (vacation) home, or maybe are even thinking about buying a fixer-upper and flipping it. With careful planning, it is possible to apply the full home sale exclusion to all three of the properties.

Here is how it works. The tax code allows you to exclude up to $250,000 ($500,000 for married couples) of gain from the sale of your primary residence if you have lived in it and owned it for two of the five years immediately preceding the sale and you have not previously taken a home sale exclusion within the two years immediately preceding the sale. In addition, there is no limit on the number of times you can use the exclusion, as long as the requirements are met.

It makes sense to start off by selling the home you currently live in because you probably already meet the two-out-of-five-years ownership and use tests. The next step, if you have a second home, would be to move into it and make it your primary residence. After you have lived there for two full years and it has been more than two years since the previous home was sold, you can sell the property and take the home sale exclusion again. If you are handy, and find the right property, the next possible step would be to purchase and occupy a fixer-upper while you make repairs and improvements in preparation for its eventual sale after the two-year ownership and occupancy rules have been met. When that time is up, you can sell the fixer-upper and take the third exclusion. This makes it possible for a married couple to exclude as much as $1,500,000 of home sale profit in just over four years if they follow the rules carefully and time the sales correctly.

If you own a rental property, and you occupy the rental for two years prior to its sale, you will be able to exclude a portion of the gain for that property as well. Because so many rental owners were occupying their rentals before selling them and taking a home sale exclusion, Congress enacted a law barring the exclusion of gain attributable to rental periods after 2008. Thus, the home sale exclusion can only be used to exclude gain attributable to periods before 2009 and periods after 2008 in which the home was used as a primary residence.

Example: You purchased and began renting a residence on July 1, 2005. On July 1, 2013, you occupied the property as your primary residence; and, on August 1, 2015, you sell the property for a gain of $230,000. You had owned the property for a total of 121 months, of which 67 were before 2009 or during which you occupied the property as your primary residence after 2008. Thus .5537 (67/121) of the gain is subject to the exclusion. As a result, $127,351 (.5537 x $230,000) of the gain qualifies for the exclusion.

In the preceding example, had the gain exceeded the exclusion limits, $250,000 for single taxpayers and $500,000 married taxpayers, the exclusion would have been capped at the exclusion limits.

There is one final issue to consider. If any of the residences were acquired though a tax-deferred (Sec 1031) exchange from another property, then the residence must be owned for a period of five years prior to its sale to qualify for the exclusion.

Tax Tips for Recently Married Taxpayers

This is the time of year for many couples to tie the knot. If you marry during 2015, here are some post-marriage tips to help you avoid stress at tax time.

1. **Notify the Social Security Administration –** Report any name change to the Social Security Administration so that your name and SSN will match when filing your next tax return. Informing the SSA of a name change is quite simple. File a Form SS-5, Application for a Social Security Card at your local SSA office. The form is available on SSA's Web site, by calling 800-772-1213, or at local offices. Your income tax refund may be delayed if it is discovered your name and SSN don't match at the time your return is filed.

2. **Notify the IRS –** If you have a new address, you should notify the IRS by sending Form 8822, Change of Address.

3. **Notify the U.S. Postal Service –** You should also notify the U.S. Postal Service when you move so that any IRS or state tax agency correspondence can be forwarded.

4. **Review Your Withholding and Estimated Tax Payments –** If both you and your new spouse work, your combined income may place you in a higher tax bracket, and you may have an unpleasant surprise when we prepare your return for 2015. On the other hand, if only one of you works, filing jointly with your new spouse can provide a significant tax benefit, enabling you to reduce your withholding or estimated payments. In either case, it may be appropriate to review your withholding (W-4 status) and estimated tax payments, if any, for 2015 to make sure that you are not going to be under-withheld and that you don't set yourself up to receive bad news for the next filing season.

5. **Notify the Marketplace –** If you or your spouse has health insurance through a government Marketplace (Exchange), you must notify the Marketplace of your change in marital status. If you were included on a parent's health insurance policy through a Marketplace, then the parent must notify the Marketplace. Failure to notify the Marketplace can create tax filing problems.

If you have any questions about the impact of your new marital status on your taxes, please give this office a call.

Tax Penalty For Not Having Insurance Ratchets Up In 2015

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.

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 income taxes that will be withheld from your paycheck. 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 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.

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 Social Security and Medicare taxes from the employee's pay. 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.

5. Employed in a Family business – If the family business is unincorporated, and pays wages to a child under age 18, the child is not subject to payroll taxes (FICA). In addition, paying the child, and thus reducing the business's net income, can reduce the parent's self-employment tax. However, the wages must be reasonable for the services performed.

JUNE – SEPTEMBER 2015

Tax Calendar

June 15, 2015:

- U.S. citizens living abroad on April 15, 2015 and who have a filing requirement must file a 2014 Income Tax Return (if not already filed) or file for an extension.
- Second installment of 2015 Individual Estimated Taxes due. If your income or deductions have significantly changed, you should call this office to determine if any adjustment in estimates is appropriate.

June 30, 2015:

- Last day to report a financial interest in or signature or other authority over any foreign financial accounts with an aggregate value over $10,000 by filing FinCEN Report 114, more commonly referred to as FBAR. There are no extensions and substantial penalties for failing to file. Caution: the form must be electronically filed (a paper form cannot be filed) by the June 30 date.

June-July 2015:

- Time to review 2015 year-to-date income and expenses to ensure estimated tax payments and withholding are adequate to avoid underpayment penalties.

July 31, 2015:

- Due date for self-employed individuals and employers to file 5500 Series Returns for 2014 calendar year benefit plans (including Keogh/HR-10 plans).

September 15, 2015:

- Third installment of 2015 Individual Estimated Taxes due.
- Due date for calendar year partnerships and corporations that were given a 5-month extension to file beyond the April 15 due date.
- This is also the due date for income tax returns (Form 1041) of calendar year estates and trusts that applied for the 5-month extension to file.

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Since You **Asked...**

You Asked: My wife is confined to a wheelchair, so I would like to make some modifications to our home to make it more accessible to her. Can I deduct those modification costs as a home improvement?

Answer: Generally, home improvements are not deductible except to offset home gain when the home is sold. But a medical expense deduction may be claimed when it is a medically-necessary home modification. The modification expense is deductible as a medical expense to the extent it exceeds any resulting increase in the value of the property. The full cost of certain improvements can be included as medical expenses, because they are considered not to increase the home's value. Examples of these types of improvements include constructing entrance or exit ramps for the home; widening entrance/exit doorways, hallways and interior doorways; installing railings and support bars; and lowering or modifying kitchen cabinets. Note, however, that medical expenses can be claimed only to the extent that they exceed 10% (7.5% if age 65 or over) of the taxpayer's adjusted gross income (AGI).

You Asked: I expect to have a substantial increase in my income this year. I want to minimize my estimated tax payments but make sure I don't get a penalty for underpaying my estimates. Do you have any suggestions?

Answer: To accomplish what you are requesting, you should pay your estimates based on the "safe-harbor" amount. Taxpayers can avoid the underestimated tax penalty by paying an amount that is at least 110% of the prior year's tax liability. If your prior year's adjusted gross income was $150,000 or less ($75,000 or less if you are married but file a separate return from your spouse), the minimum payment with which to avoid penalty is 100% of the prior year's tax. In either case, each estimated tax installment should equal at least one-fourth of the total safe-harbor amount for the year. Be sure the payments are made by the installment due dates (usually April 15, June 15, and September 15 of the current year, plus January 15 of the next year). Failing to pay in a timely manner can result in the underpayment of estimated tax penalty being imposed even if the "right" amount of tax has been paid.

If your state has a state tax, the safe-harbor amount may be a different percentage.