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# Tax Hints

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## Affordable Care Act (Obamacare)

The mandatory health coverage rules kicked in at the beginning of 2014. Now Obamacare is finally hitting everyone's tax returns.

Under the new rules, Individuals, with certain exceptions, are required to maintain health insurance that meets "minimum essential coverage" for themselves and anyone they claim as a dependent on their tax return. [For more details on the Individual Insurance Requirements please see the brochure "2015 Healthcare Reform - Individual Insurance Requirement" available on our website: [www.cpabe.com](http://www.cpabe.com). Click on the "Healthcare Reform" link at the top of our homepage.]

As a result of the healthcare mandate there will be several new forms this year. There are three primary forms which are designed to report the required insurance information to those who are insured. Depending on how you obtain your insurance, it should be reported on Form 1095-A, 1095-B or 1095-C. The information that is to be reported on these forms is needed to prepare your tax return properly, report your health insurance, and calculate any credit or penalty that may apply. In their infinite wisdom, while the information on these forms is needed to prepare your return, filing of two of the three reporting forms has been made optional for 2014. This alone will create a nightmare in preparing your tax return.

If you actually receive a 1095 form it is important that you have it available when you prepare your taxes for 2014.

If you don't have it, you will need:

1. Health Insurer(s) for the year;

2. Number of months of coverage;
3. Members of your family covered by the health insurance and for which portion of the year (if not the entire year);
4. Your county of residence all year.

Some firms, including ours, will also require a signed health insurance form or representation for our files. Additionally, you may be asked to provide a copy of your medical insurance card.

The reporting of insurance coverage is filled with pitfalls that can cost a lot of money. There are multiple possibilities of tax mistakes. Many of these are related to dependent children who may have worked in 2014.

**Do not allow any dependent children to file their tax return, particularly college students, and do not file them yourself, at least until you have completed your own return.**

The best advice we can give to avoid costly mistakes is do not allow any dependent children to file their tax return, particularly college students, and do not file them yourself, at least until you have completed your own return.

This advice is meant to protect you from your children potentially costing you literally thousands of dollars in potential health care tax credits.

One other potential surprise is the unexpected tax bill that could arise. If you received advance premium credits by purchasing insurance through the healthcare

"marketplace", the amount of premium credit you may have received was based on the prior year's income amount that you provided when signing up. Ultimately, the actual credit for 2014 will be based on your 2014 income. If you received a credit and your 2014 income is higher than the amount you reported when obtaining the insurance, you will likely owe additional taxes as you must repay the excess credit that you received.

There is also a filing minefield hiding out there. The healthcare law specifies that credits will be available for state run healthcare marketplaces. Some states did not set up their own marketplace and people in those states use the federal healthcare marketplace. There have been recent court cases as to whether the insurance purchased through the federal marketplace can provide premium credits. The cases have resulted in different decisions in different courts. The Supreme Court has agreed to hear a case on the issue, however, the decision is not expected to be announced until July. At this point the outcome is unknown. Should the Supreme Court rule that the federal marketplace cannot provide premium credits, those who received credits may be obligated to repay their credits. Should the decision be that they can provide credits, people in those states will have to calculate their premium credit. Unfortunately, the final tax treatment likely won't be known until July 2015. It is quite possible that people who obtained insurance through the federal marketplace will have to file for an extension to file their tax returns. There are only 13 states

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with a state-run marketplace. All other states provide healthcare with the federal government providing some portion of the management or entirely providing the marketplace. In the local area both New Jersey and Pennsylvania have Federally facilitated marketplaces.

This will be an interesting tax season!

### What's New for Individuals and Families

The Internal Revenue Service regularly issues publications to help taxpayers understand issues. One of the newer publications, Publication 5187, Health Care Law: What's New for Individuals and Families, has

been released and can be found by visiting [irs.gov/aca](http://irs.gov/aca). You can also find the publication by typing "p5187" into any search window at the top of any page on [irs.gov](http://irs.gov).

The publication includes a glossary

that will help you understand new terminology related to the Affordable Care Act.

Most people have qualifying health coverage so all they will have to do is check a box on their return.



Obamacare is here!

### Paying Federal Taxes Made Easier

The Internal Revenue Service has created a new simple way for taxpayers to pay their tax bill or make estimated payments online. The system is called "IRS Direct Pay". The payments can be made directly from a checking or savings account at no additional cost. Most importantly, the bank account information is not retained in the IRS system after the payment is made. Additionally, the taxpayer gets an immediate confirmation that a tax

payment has been made.

There are five steps in the process:

1. Provide tax information.
2. Verify taxpayer identity.
3. Enter payment information.
4. Review and electronically sign the transaction.
5. Print or record the online confirmation number.

We strongly recommend using the IRS Direct Pay system as it allows

you to print a confirmation documenting your payment.

Estimated tax payments and extension payments can only be made for the current year. Direct Pay will allow you to make payments for any 1040 tax return for the last 20 years.

Right now only 1040 payments for tax, estimates or extensions can be made. It is likely that other payment types will be added in the

future.

The verification of identity is accomplished by providing information from one of the last five tax returns. Note that you will have to verify your identity each time you make a payment as the information is not retained in the IRS computers.

**"We are beginning to see changes in how the IRS handles payments and makes refunds."**

### Limitation on Direct Deposit of Refunds

We are beginning to see changes in how the IRS handles payments and makes refunds. In the above story we learned about a new payment method for paying federal taxes. There also are new limitations on how tax refunds can be handled.

The Internal Revenue Service will

limit how many direct deposits can be made to any one bank account.

The new rules are an attempt to reduce fraud and help with identity theft. In the past few years returns filed under someone else's social security number claiming improper credits and refunds or showing improper excessive deductions have become a serious problem. Many of these refunds request a direct deposit of the tax refund and the funds are gone by the time the IRS determines it is a fraudulent return. The perpetrators of these frauds used a bank account set up for that purpose and had refunds from many fraudulent returns deposited into the account.

As a result, the IRS is limiting to three the number of direct deposited refunds that can go to any one bank account.

This should not be a problem for law-abiding taxpayers, unless a parent is having refunds for more than two dependents deposited in their account in addition to their own refund.

In these cases any refunds beyond the first 3 will be made by paper check and accompanied by a letter explaining the limit of three direct deposit refunds to any bank account.



## An Important January Reminder

Each year when we do tax returns we invariably come across at least one or two taxpayers who have put themselves in position to be penalized.

The government requires the issuance of a 1099 in certain circumstances. For the most part, the 1099 must be sent to the recipient by January 31st of the subsequent year and to the government by the end of February. Some states also have requirements for filing of 1099s.

Most tax preparers do not include 1099s as part of their tax return preparation engagement except by special request. The issue is that

most people don't begin to have their taxes prepared until after the first deadline of January 31st has already passed. By the time you begin preparation of your tax return, you already are likely to be in a penalty situation.

This reminder is to encourage you to review your situation now, before you potentially subject yourself to penalties.

There are two relatively frequent situations where 1099s are required to be issued by individual taxpayers.

The government requires issuance of a 1099 to any person or entity (except to a corporation) when, in

the course of your trade or business, you have paid them \$600 or more during the calendar year for services or rent. Two important things to note: (1) This does not apply to a rental property, as despite IRS attempts to require 1099s, a rental property is not considered a business and therefore not subject to the 1099 requirements. (2) One of the most frequent errors is that the above exception applies to corporations only, not to anyone who has a business name. A 1099 must be issued to any entity that is not a corporation. This includes unincorporated business with a "d/b/a" (doing business as) name, a partnership, and perhaps the most

frequently missed entity, an LLC. Remember an LLC is not a corporation.

Additionally, if you paid \$600 or more to an attorney or law firm, a 1099 is required even if the money was paid to a corporation.

The other frequently overlooked situation is when a taxpayer receives interest, dividends or proceeds from stock sales under their social security number, that in fact belong to someone else, such as a child. If the amount that belongs to the other person is \$10 or more, you are required to issue them a 1099.

There are significant penalties for not filing these forms.

## Online Gambling—Don't Cause Expensive Penalties

If you participate in online gambling you may be in for a big, expensive surprise.

A recent district court ruling held that online poker accounts had to be reported as foreign bank accounts. The court held that the taxpayer's online gambling accounts were the equivalent of foreign bank accounts. Despite the fact that the online poker company had accounts with banks in the United States, the accounts were established on the taxpayer's behalf by entities located

outside of the United States. As a result of the taxpayer's account being established by a company located outside of the United States, the court held that they were foreign accounts.

It is important to consider online gambling accounts as foreign bank accounts.

As a reminder, a U.S. person must file the Foreign Bank Account Reporting (FBAR) form with the Department of Treasury and disclose any financial account in a foreign

country with assets in excess of \$10,000 if they have signatory or other authority or if they have a financial interest in the account. This applies to the total in all accounts, not each account individually.

The filing threshold is calculated totaling the highest balance in each account during the year.

The balance is calculated using the value on the statement, if a statement is issued quarterly or more

frequently. If there are no periodic statements, the value is the largest amount in the account at any time during the year.

Once you exceed \$10,000 you must report all foreign financial accounts, including those with \$0 balances.

Failure to file is subject to significant penalties.



## Metropolitan Commuter Transportation Mobility Tax (MCTMT)

Some changes have been made to the MCTMT. The MCTMT has been mildly annoying to many people. One of the reasons is that the MCTMT had due dates that were different from other personal tax returns and had estimated payments with different due dates than other personal estimated taxes.

Effective with taxable years beginning on or after January 1, 2015, the

due dates will now be consistent with other personal returns. In 2015, the 2014 tax return will not be due until April 30th. Beginning next year the due date will be April 15th. Estimated payments for 2015 are due beginning April 15th, 2015.

**For Partners**—Effective with 2015 tax returns there no longer will be a group election for resident partners allowing the MCTMT to be filed at

the partnership level. In April 2016, your MCTMT will be reported on your personal tax return.

Accordingly, estimated taxes, beginning with the April 15, 2015 payment, should be adjusted to account for the additional tax that will now be paid with your personal tax return.



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## Important News About Gifts

Gift tax returns, actually failure to file gift tax returns, have apparently gotten the attention of the government.

Normally, there is minimal ability to assess penalties on returns where no tax is actually due. Proposals have been going around including proposals such as creating a failure to file penalty along the lines of the penalty for failure to file or late filing of an S Corporation tax returns. The penalty for failure to file an S Corporation return is \$195 per shareholder, per month, for up to 12 months (\$2,340 maximum per shareholder).

Gift tax returns are due when your taxable gifts to an individual reach the yearly limit. The yearly limit once again remains unchanged at \$14,000.

As a reminder if you give someone \$13,999 plus a \$3 trinket, you have an obligation to file a gift tax return. The \$14,000 limit is based on all gifts to a person during the year.

Filing a gift tax return doesn't mean there will be tax due. At some point failure to file a gift tax return could end being very expensive.

## Home Office Deduction

Once in a while a ruling from court comes along that highlights how the court may view an issue.

In this case, the Tax Court, in Summary Opinion 2014-74, allowed a home office deduction for an employee when the home office was not exclusively used for business.

While a summary opinion cannot be used as a precedent, it does give some indication of how the Tax Court looks at an issue.

As a reminder, if you self-employed you may qualify for a home office deduction where an area in your home is *regularly* and *exclusively* used as the principal place of business or as a place to meet with or deal with clients in the ordinary

course of business. If you are an employee you may also qualify, however, in addition to meeting the tests described above, you must also meet the so-called employer convenience test. In most cases you will not qualify unless the employer does not provide you with office space.

In the recent Tax Court case, the employee in New York was hired to work for a company that only had offices in California. The employee's apartment was listed on the company's website as its New York office.

The employee had a studio apartment. The apartment was broken up into three areas, the entryway with the bathroom and kitchen, an office area, and a bedroom area.

The employee claimed a home office deduction for the office section.

The employee used the space primarily for the business, however, it was also used occasionally for non-business purposes. Additionally, it had to be walked through to get to the bedroom.

Of course the IRS said it didn't meet "exclusive" use. The Tax Court however said "we find that her personal use of the space was de minimis and wholly attributable to the practicalities of living in a studio apartment of such modest dimensions" and allowed the home office deduction for the use of the office area of the taxpayer's apartment.

