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Newsletter – Winter 2014

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Winter 2014 Newsletter

I am going to find out who reads these newsletters. December is the time I go to seminars of which I have to in order to renew my CPA license. In December most of these seminars have to do with tax updates. While some are clearly better than others I will normally pull away something from each of them. And while many times it doesn't feel worth it to have to sit eight hours in a room full of coughing, sneezing and hacking people to get one or two things, I am willing to pay that price to help our clients. And ok yes I am forced to by the Dept. of Professional Regulations to do just that but I would make that sacrifice for you even if I didn't have to. I do think I am going to do seminars via the web in the future because thanks to those seminars full of sick people I am part of the Kane Ct flu epidemic. Anyway this is getting out so close to the Holiday I could have called this the 2014 Holiday Newsletter. The wish I have for all of a you is a healthy holiday season along with a healthy 2015. After 2014 I don't think there is anything more precious than that. Now there is a lot that has come up and it is going to affect just about everyone in some way or another. So here goes.

Starting Small

This first one is going to affect just a handful of clients but I am going to use this to start off to show this may be one of the most confusing tax years ever. We are all waiting on the extended bill (we will get to that later). Because that bill is not set as of writing the newsletter the 2014 tax forms can't even be done yet. The IRS is squawking again that filing season will again be delayed as a result. Remember that just last year I couldn't file returns until the IRS said I could. That delayed over 75 returns and what fun that was to get caught up when I could file. Well not only are we faced with that extended bill but the healthcare or at least certain aspects are A MESS. One of those areas is a credit for small employers that pay for employee's health care insurance. Granted this only affects a handful but this credit is a perfect example of the confusion. The credit is now only available for coverage that is offered through a SHOP exchange. The problem here is only a few states offer an exchange. Illinois is one that does but I don't know to what extent or if any SHOP coverage is offered. By the way most states don't even have an exchange. (Mostly red states-what a shocker). Now if your state doesn't have an exchange what are you supposed to do? Go to the federal website? Nobody really knows. Even the few states that have an exchange was SHOP available in time? Taxes are tough enough and things like this only make it worse.

A Few More Affected

All of our S-Corp clients just got my Healthcare Insurance letter for 2014 and I have read some of the responses I got back. Healthcare has hit this area hard too and not in a good way. One of the most frequent comments I got was nobody knew you now must have the health insurance paid thru the S-Corp. Well let me tell you about the tax alert I got from the IRS put out on December 9, 2014. Yes that is 2014 not 2013 for something that the IRS insist must have taken effect on 1/1/2014. If anyone thinks this Obamacare is going smoothly you have a gross misconception of the ability of our government to effately and efficiently to do anything. YES I am getting more and more frustrated by the attempts to administrate this massive debacle. You bet I am. What the federal government came out with was what they now call Health Reimbursement Arrangement (HRA's). What an HRA is the ability for someone to reimburse health cost thru the corp. This is why in the past it didn't matter if the health cost were paid thru the corp or personally because you could always reimburse thru the corp if it came out of your personal account. Now HRA's are considered "group health plans" and must be ACA compliant. I could go on with the other 16 points that would scare the heck out of you but for now – very important for all of you small employers (yes this does include the famous ma and pa corps or if you just have 1 or 2 employees outside yourself). All medical cost must go directly thru your corp. Get a credit card for your corp if you need to but paying for it yourself and then writing a check for the corp will no longer work in 95% of the cases.

More and More of You Impacted

Now there was more going on than just health care, although I have not left that alone just yet. For years the IRS has been looking at the very thorny and always hotly contested issue of capitalization was write off via repairs and maintenance. Of course the IRS always wanted everything capitalized since you had to write that off over as much as 40 years in some cases and we wanted everything expensed in the current period. In 2014 the IRS issued the final regulation in this area. Final Regs are considered the closest thing to law and tells us how the IRS will treat any of those transactions in the future. It is the IRS's interpretation of the law and with the government's ongoing spirit of tax simplification-the final regs were a complete 520 pages on this one tiny aspect of tax law. So who does it effect?- Everyone that has ever owned a business that had a major asset as part of that business or ever owned investment property. Yes that means any rental property. Now that should be over ½ of you. The final regs puts the interpretation into 3 admittedly logical categories. Acquisitions, repairs and maintenance and disposal. There is one change to acquisitions that while being somewhat significant is also logical. But the huge change is in the last 2 categories. I am tempted to go into detail but then you might want to throw all 520 pages at me. Let me try to put a very simple example. You have a building. You knock down a wall to expand the building. As before the cost of the expansion must be capitalized BUT we can now write off part of the building that used to be that wall. THIS IS ALL NEW. And its impact is very far reaching. Did you replace a roof? Replace a furnace?, remodel, new carpet, new appliances, change out a motor in a machine, replace an engine in your company car? I could go on and on but taking the write off could save anyone that had to capitalize an assert a boatload in taxes. And here is the strangest thing of all of them. According to these regs we can go as far back as we want, including years that are considered closed. I am still getting my hands around this huge law but if this applies to you PLEASE let me know you are interested is pursuing this. It may require some work on both our parts but being able to expenses something NOW as opposed to having to wait 40 years could be significant.

Please note if you sold the property this will not matter because when we completed the sale on the taxes I would have taken care of all this, but if you still own it!!!! I am going to try to review each of these when I do your returns this tax season but heads up from you would be great.

And Now All of You

Health care credits and/ or penalties are in everybody's return this year. I need to correct something I said in an earlier newsletter. The penalty can be higher than the \$95 flat rate. If you are married filing joint with one college age child it can be \$95 X 3 or \$285 BUT if your income is over 48,800 you will pay 1% if your excess income up to a max of 12,240. Of course that means you made over 1 million to get the max penalty but \$1000 penalties may not be all that uncommon for you. Next year \$325 or 2% of income capped at 11,660 (??? Lower?? why) and 2016 695 per adult or 2 ½ of income capped at 12,260. (Yep \$20 higher than 2014) now if you are not confused yet and you should be you have now the computation of adult equivalents. This is where some but not all of your kids will be a half of an adult. Really who comes up with this stuff? So I can calculate all of this you are going to get a new form. If you get your insurance thru the exchange you are going to get a 1095-A. You will get this for the 2014 return. If you get your insurance directly from an insurance company you MAY get a 1095-B. I am not sure how we are supposed to work this if those are not issued but this form is optional for 2014. If you get insurance thru an employer you MAY get a 1095-C. This one will be easier handled if this optional form is not received because I will be able to pick this up off the W-2. So now everyone has been included. Our government has left no one behind from being forced to trudge thru this mess.

REALLY

I don't have a lot of space left so I will try to get thru some other issues. The first one is a complete shock to me. The new mileage rate went from 56 cents a mile to 57.5 cents for 2015. I think all of the rates are made by one guy that lives and works in one little room with no windows. How can they not know where current gas prices are? (Maybe one of our former governors is this guy: Small room- no outside contact- Get it?) I don't know about you but I am finding a lot cheaper to drive these days than ever before. What scares me is what does our government know that we don't?

A Brief Update

I see the house has passed the extender package mentioned above. By the time this newsletter gets out it could be resolved. By the way there are other tax bills also being considered so we may be in for more fun than even I thought. UPDATE- right as I was about to send this out 2 bills passed congress and the President is expected to sign both of them. One is the extender bill. So it does look like this will be back in law for the 2014 returns.

Dear Santa I have been Good –Really

The new IRS commissioner has been crying to congress that he doesn't have enough money to run the IRS. So what does he do? He is giving out bonuses this year for all the good IRS employees. But wait-he does have his limits and I did say "good". If you violated this agencies' code of conduct and GOT CAUGHT you will not get a bonus. So that means if you are not a crook and a dumb crook at that, something that would get you and me fired from our real jobs, the IRS is saying "here take some money we just pried away out of the hands of those hard working honest Americans. Oh by the way-do you want to know what the most frequent violation of the code of conduct involves. –NOT PAYING TAXES. That means you would get a bonus if you did what everyone else is forced to do and if you didn't you get a bonus by not paying your taxes. So wonder why everyone wants a government job.

Well there is more but I am out of space and my hand is tired. Since this is the last newsletter of 2014 you will be getting our appointment invite next. If you are on the newsletter list you are on that list. As we have in previous years our office is closed at the end of year. We had planned to close the 22nd to the 6th of January but both Dorothy and I are fighting the flu. (Yes we are part of that crap that is going around) we have closed the office this week so we don't get anyone sick. Therefore I am planning to be around for a time on the 22nd but after that we will be closed until the 7th of January. We will see you all this upcoming tax season. Happy Holidays, Merry Christmas and a Happy and Healthy New Year!

-Tom & Dorothy