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On January 1, 2016 penalties for late, incomplete, incorrect or unfiled 1099's increased to as much as \$250 each. The due date for 1099's & W-2's has also changed. They are due to the recipient by January 31st. They are also now due to the IRS and Social Security by January 31st. If you'd like us to prepare any 1099's and/or W-2's we must have them by January 15th. In the past, some have had trouble getting social security numbers and addresses from individuals after they have been paid. We recommend that you get the information before you pay them. Use a W-9 to request this information.

We have included worksheets that must be completed before we can prepare your return. Please include these worksheets when providing us your documentation. If not provided, we will have to call to get the information. It is more efficient if the worksheets are completed prior to us starting your return. www.hetcpa.com/worksheets

Partnership tax returns are now due on March 15th.

Applicable to all business owners and farmers: Section 179 is \$500,000 to be indexed for inflation in the future.

IRS has announced they will not begin issuing refunds with an earned income credit until February 15th.

Form Fin Cen 114 – reporting of foreign accounts – in the past had a June 30th due date. That has now been changed to April 15th. This is a separate filing and not included with the tax return.

Premiums for mortgage insurance deductible as an itemized deduction will expire on 12/31/16. One may want to consider refinancing if there is enough equity in your home to not require mortgage insurance.

Taxpayers that have a required minimum distribution can have part or all of their distribution paid directly to an eligible charity, the payment would be nontaxable. This provision has been made permanent.

Many taxpayers will receive a FORM 1095 from their employer, insurance company or the market place. We must receive a copy of that form to prepare your return. IRS has extended the due date for the 1095B & 1095C, so you may not have that in time to file your return. We are able to file your return, if you provide us assurance you did have insurance. Those with Medicare, Medicaid, VA or other government sponsored healthcare may not receive a 1095.

Worker misclassification remains an audit priority for the IRS. They continue to seek back payroll taxes and penalties from firms that wrongly treated employees as contractors. The Labor Department is also getting involved by funding efforts by states to find misclassifications. Most states share results of these classification exams with the IRS and Labor Department.

Deductions and Tax Rates

- Tax rates, mileage rates, the standard deduction, personal exemption, and depreciation amounts are available on our resources page at www.hetcpa.com/resources.
- Business mileage rate for 2016 is 54¢ per mile, moving & medical is 19¢ and charitable is 14¢.
- Gambling losses require a log showing date and type of specific wager. In most cases, those who are gambling are winning more than the amounts shown on the W-2G. If the taxpayer gets the print out from the casino to verify losses, that printout also shows additional winnings that need to be reported.
- In order to take a charitable contribution deduction, you must have the contribution receipt or letter from the church or organization that is dated before we prepare your return
- Business, farm, and rental schedules have 2 questions that **“must”** be answered: Is there a 1099 filing requirement? If yes, was it filed? Be sure that you have filed any necessary 1099's.
- A vacation home mortgage should be secured by the 2nd home, not by an equity line on the 1st home, because a 2nd home allows the deduction of interest on up to a total of \$1 million in total acquisition debt (primary plus secondary homes) while the interest on home equity debt is limited to the deduction of interest on only \$100,000 of debt.
- IRS may be targeting for audit, direct sellers, such as Mary Kay, Market America, Precision Designs & Creative Memories.
- A recent audit allowed a home office deduction of 75% of the cost of the internet.
- It's a good idea to check your social security earnings annually. www.ssa.gov

Farmers

- When prepaying expenses, the invoice must show quantities (i.e. pounds of fertilizer), that there is a legitimate business purpose (price protection, discounts, availability) and that the expenditure doesn't result in a material distortion of income (quantity must be used in the next year).
- Those who are disabled or retired are not subject to self-employment tax on CRP payments.
- Farmers will not be required to file their returns until April 15th if they make one estimated tax payment by January 15th. Farmers can make contributions to charities with commodities, however there are specific requirements for this to be done correctly.

Employers

- If you hire an independent contractor, you will need to prove that individual truly is an independent contractor and not an employee. A 1099 must be issued to any independent contractor paid more than \$600.
- There is a requirement to take regular and consistent periodic inventories and adjust the books to agree to the actual count. Regulations are generally interpreted to mean that an annual physical inventory is required at or near year end.
- A recent court case disallowed deductions determining the (farm or business) operation was not engaged in for profit because it was not operated in a business-like manner. They had no business plan, insufficient records and didn't seek professional advice. We did have an audit this year where the auditor disallowed deductions and treated the farm business as a hobby.
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We emailed this letter to many clients this year. Let us know if you would like this letter emailed to you next year. Those of you utilizing our client portal, please let us know, as we do not get a notification when you upload a document.

Again, we are encouraging you to use our web portal for your copy of the tax return. We will put prior year returns on the portal as well. You can then print copies of returns at any time without having to contact us for additional copies. If you received a flash drive in prior years, please bring it in and we will put 2016 on the same flash drive.