

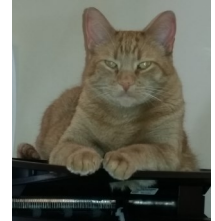
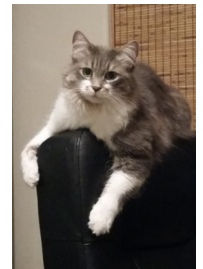
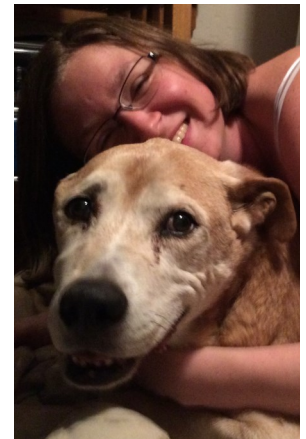
The Knightly News

Change is Inevitable

If one thing is certain, it's that change is inevitable. After 14 years together, Dave and I divorced in May 2015. We parted as good friends and strong allies for our children, and our entire family has grown stronger as a result. On another sad note, I lost my best buddy, Doggie Joe, in February. The photo to the right was taken just a few minutes before he passed away, and I was lucky to have a vet come to our home and euthanize him while he was resting in my bed. His last look at me was nothing but peaceful and we both knew the timing was right. My crazy cats have taken over the run of the house in the meantime, and they continue their usual antics of shutting off computers, swatting at printer paper, and being lovable troublemakers.

My boys continue to grow right before my eyes. Jacob (7) continues his athletic path and is currently ranked among the top five snowboarders in the US for the 7 & Under age group. His goal is to win a medal at this year's National Championships in early April. He works hard and has fun along the way, so all a mom can do is support her kiddo and keep the car gassed up for all the driving that goes along with a busy travel schedule.

Ethan (5) is excelling in school. He is already out-reading his older brother and the teacher's call him "Mr. Mayor" because he is so social around the school. After years of struggling with growth issues, we now know that Ethan has some heart and lung issues holding him back physically, and we are focused on finding out both why he has the issues, and how we can help him. He is quite the trooper when it comes to medical stuff, and he takes the job of entertaining the doctors and nurses caring for him quite seriously!



Practice/Pricing Changes in 2016

As anticipated over the past few years, the Affordable Care Act is now fully in place and requires significant changes to the federal tax return. In addition, as the IRS computer systems improve, their volume of correspondence and audits have increased significantly, as has their scrutiny of tax professionals. I can no longer offer my Gold Plan to offer free audit coverage, because of this increased volume, and I now require that my clients complete my organizers as part of the tax preparation process in order to have the backup I need to practice before the IRS. There will be a fee of \$25 for those who do not complete my organizers, and I will bill hourly (\$115/hour) for any tax planning, IRS correspondence, or tax agency audits going forward.

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Saving Tax Records for Seven Years (reprint from 2015...because it's important!!!)

One of the more frequent questions I'm asked is how long to save tax records? This is a very important one, because once records are destroyed, the amount of work to recreate them can be substantial, if not impossible.

The general rule of thumb, prescribed by the Internal Revenue Service, is to keep all tax related documents, receipts, and logs for a minimum of seven years after the filing deadline. While it is common to assume that the statute of limitations is three years, so that should be sufficient, there is a provision in the law that allows the IRS to go back as far as six years if income is underreported by 25 percent, or seven years if there is a loss claim for bad debt or worthless securities.

There is another provision of the law that states there is no statute of limitations if a return isn't filed, or if a return is filed fraudulently. In those cases, the IRS can go back as many

years as they choose. There would be no worse scenario than having destroyed all your backup for your return, only to find out a past return wasn't filed and the IRS was requesting it. Regardless of whether it wasn't filed due to an innocent mistake or fraud, you don't want to be

dealing with the IRS and not have the data readily available.

Another complication for small businesses and individuals alike is the record-keeping for assets they file on their tax returns. According to the IRS, if you sell an asset such as a house, a rental property, stocks or bonds, you should keep your records for the time period that you held that asset, plus another three to seven years depending on the situations previously discussed. So, a small business that bought machinery, used it for seven years, then sold it, should keep their tax records for all seven years they held the machinery, plus at least another three beyond the filing date of the year it was sold.

With so many possible opportunities for a return to be audited, the best advice is to simply to keep all returns indefinitely. While they can be a burden to store, with modernized, digital technologies, it's not impossible.

FINAL NOTE: I recommend that all individuals and small businesses save their bank and credit card statements to PDF at least once a year. Although many online records are accessible for years, if a bank is sold, closes or changes ownership, these records can be cut off without notice. Keeping your own records can be a critical factor in a successful outcome in a battle with a government agency.



Significant Increase in IRS Correspondence & Audits, Expectation is for Trend to Continue. Are you Prepared?

There is little doubt among tax professionals that audits are on the rise and that auditors are taking a stricter approach to which records are acceptable. Although I've always recommended saving receipts, in the past, I had clients successfully get through an audit by proving expense charges on their credit card statements, but recent trends suggest that's no longer the case.

During an audit by a tax agency, you need to prove both payment method and the expense itself. In other words, you need to have a statement which shows payment method, such as the credit card statement or debit card statement showing the charge, and the expense receipt from the store showing exactly what was purchased. In the example of expense reports, in many cases, a credit card statement is enough backup to process an expense reimbursements. While this does not necessarily lead to misrepresented tax returns or financial statements, it would not pass in the eyes of an auditor examining a business for sales tax, use tax, or income tax purposes.

Auditors are also taking a stricter approach to meals and entertainment and vehicle expenses. Estimates are absolutely not acceptable, and a business owner must have solid proof for any expenses. While this has always been

the law, most accountants are getting a sense that the interpretation is becoming stricter lately and less exceptions are being made.

For individual tax filers, audits are most often centered around education and daycare expenses. This means you should keep all records of paying for education and daycare expenses, including both proof of payment and receipts, and also track which years you actually pay the expenses, rather than just rely on the college's tuition statement (1098-T) or the daycare provider's statement.

Another common mistake is not providing all the 1099-B's, DIV's, and INT from a taxpayer's brokerage account. Many of these organizations are no longer mailing out 1099's at year end, and it's up to the account holder to log in and print their own forms. Failure to provide these statements at tax time could result in both grabbing the attention of the IRS (which nobody wants!) and additional fees for reprinted returns, amended returns, or time spent corresponding with the IRS.

While I've always maintained that you shouldn't avoid taking accurate deductions in fear of an audit, I am finding it more important than ever to keep diligent records and save copies of all receipts.

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Deducting Health Care Premiums for a Business: Guidelines Considering the New Healthcare Law

The new Health care law has changed the way small businesses handle health care premiums. Steep penalties have been created if the new rules are not followed, so it is important that small business owners know what they can and can't do regarding health care premiums.

Below are some guidelines to help the small business owner navigate the impact that the new health care law has. Please locate the type of business you are operating, and read the specifics regarding your options for deducting health care premiums.

Business type: LLC sole proprietor – reporting business activity on a Schedule C.

This type of business can deduct individual health care premiums on their 1040 and lower taxable income as long as there is enough income from the business to cover the amount of premiums paid, and the health insurance is not available from the taxpayers or a spouse's employer. Note it is the availability of the insurance through another employer that matters here. It does not matter if the health insurance is actually purchased through that other employer. In this arrangement, it does not matter which bank account (business or personal) the premiums are paid from.

Business type: Partnership or LLC with two or more members with no election for s-corporation treatment– reporting business activity on a Form 1065.

This type of business can deduct individual health insurance premiums paid for partners. The premiums can be paid for either by the business directly, or by reimbursing the partner for the expense. Note that the reimbursement must actually be made, not just backed out of owner draws. Health care premiums deducted by the business must be recorded as guaranteed payments to partners on the K1 and thus are subject to Self-Employment tax. It does not matter if the health care plan chosen is an individual or group plan.

Make sure to inform your tax preparer of the amount of health premiums paid or reimbursed from the company for each partner to ensure accurate tax reporting.

Business type: LLC or Corporation that has elected to be treated as an S-corporation – reporting business activity on a Form 1120S.

This type of business may be able to deduct health insurance paid by the company, but there are specific rules limiting this ability with steep penalties if not followed (\$100 per day per employee for violations).

“Steep penalties have been created if the new rules are not followed, so it is important that small business owners know what they can and can't do regarding health care premiums.”



Healthcare Scenarios

Scenario 1: More than one employee (including spouses and multiple shareholders).

In this scenario, the business may only deduct health insurance premiums if they are part of a group health plan, it cannot reimburse owners for individual health care plans. This is true even if the other employees are not eligible for benefits. The only option here is to get a group health plan in place and offer it to all eligible employees. If this is not followed, there is a \$100 per day penalty per employee. Note that the employer does not have an obligation to offer health insurance to all employees unless there are over 50, however, it is an all or nothing type situation. Either an employer must offer these benefits to all eligible employees through a group plan, or none.

Scenario 2: Only one employee who is a greater than 2% owner of the company.

This is the only scenario where the health care premiums can be deducted for an individual health plan. The health insurance premiums can be paid for either directly by the business, or reimbursed to the shareholder. Note that the reimbursement must take place within the fiscal year of the company. These premium payments need to be recorded on the W2 as income and in Box 14, but the amounts are not subject to Medicare or Social Security payroll tax.

Note that the one employee limitation includes spouses – having a taxpayer and spouse as employees would eliminate the ability of the business to deduct an individual plan even though the spouse could be covered under the taxpayers plan.

Make sure to inform your tax preparer of the amount of health premiums paid or reimbursed from the company for the employee by December 31st to ensure accurate tax reporting on both the business return and the W2.

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E-mail: cpa@cpamichele.com
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Important Dates for the Season:

January 31st—1099 submission deadline—for small business owners who use contract labor and landlords who hire subcontractors, service providers and legal help (must contact me by 1/15 if you need filing assistance)

February 15th—Deadline for submissions for Corporate Returns to be guaranteed for March 15th tax deadline (August 15th is final deadline for extended returns data submission)

March 18th—Deadline for submission for Individual Returns to be guaranteed for April 18th tax deadline (September 15th is final deadline for extended returns data submissions)

April 8th—Deadline for extension requests

While my tax preparation prices haven't increased over last year, due to recent changes in the Affordable Care Act and the IRS's increased correspondence and audit volume, I need to require that clients complete my organizers as part of the tax preparation process. I have a new charge of \$25 for those who do not complete my organizers to cover the additional time it takes to ask the questions that the organizer already covers, and I will bill hourly (\$115/hour) for any tax planning, IRS correspondence, or tax agency audits going forward.

Scheduling Details

Denver West - 14143 Denver West Parkway, Suite 100
(on Denver West Blvd, off I-70)

- Take I-70 to Denver West Exit and head north.
- Turn right at the first light (Denver West Parkway).
- Parking lot is on the left and there is plenty of parking out front.

Broomfield 11001 West 120th Ave., Suite 400, Broomfield, CO 80021 (South of Interlocken Loop, North of Airport)

- From Highway 36, exit Broomfield/Lafayette Hwy 287/121.
- Turn left & cross over Hwy 36, Left on Network Parkway 120th Ave.
- Turn Right on Interlocken Loop
- Turn Left on Network Parkway 120th Ave,
- Turn left at first opportunity between buildings

Littleton (NEW LOCATION IN 2016) 4 Dry Creek Circle, Suite 100, Littleton, CO 80120 (just North of C-470/S. Broadway exit at Dry Creek Blvd and Broadway)

- From C-470, exit S. Broadway
- Head North on S. Broadway
- In 1.4 miles, turn West onto W Dry Creek Circle

Communication Tips: Email and phone are my preferred methods of communication. **Please do not** text, message, facetime, linked in, or use any other form of communication...I simply cannot keep up! I am generally at my desk looking at email all day long, and I check voicemail at least a few times a day...all other methods are overwhelming to me and I do not monitor them. With tax time here, I will be spending a bit more time in appointments and a bit less time in front of my inbox. If you don't hear from me in 48 hours, please resend the email or don't hesitate to call again.

If you want to schedule a face-to-face appointment, we book in 4 different offices: Denver West, Broomfield, Littleton and Summit Cove/Dillon. Please see the schedule below for the available appointments in Denver West, Louisville, and Littleton. Summit County appointments are held at my office in Summit Cove on Monday and Tuesday between 10am and 3pm. When requesting an appointment, please email me (cpa@cpamichele.com) a few good dates/times that work for you and I'll respond with a confirmation.

Wednesday, February 10th—Denver West

Tuesday, February 16th—Littleton

Wednesday, February 17th—Denver West

Thursday, February 18th—Broomfield

Wednesday, March 2nd—Denver West

Thursday, March 3rd—Broomfield

Wednesday, March 16th—Denver West

Thursday, March 17th—Littleton

Friday, March 18th—Broomfield

Wednesday, March 23rd—Denver West

Thursday, March 24th—Broomfield