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Tax & Business Alert

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HOW YOU CAN HELP PREVENT TAX-RELATED IDENTITY THEFT

Tax-related fraud isn't a new crime, but tax preparation software, e-filing and increased availability of personal data have made tax-related identity theft increasingly easy to perpetrate. The IRS is taking steps to reduce such fraud, but taxpayers must play their part, too.

HOW THEY DO IT

Criminals perpetrate tax identity theft by using stolen Social Security numbers and other personal information to file tax returns in their victims' names. Naturally, the fake returns claim that the filer is owed a refund — and the bigger, the better.

To ensure they're a step ahead of taxpayers filing legitimate returns and employers submitting W-2 and 1099 forms, the thieves file early in the tax season. They usually request that refunds be made to debit cards, which are hard for the IRS to trace once they're distributed.

IRS TAKES ACTION

The increasing rate of tax-related fraud — not to mention the well-publicized 2015 IRS data breach — has spurred government agencies and private sector businesses to act. This past June, a coalition made up of the IRS, state tax administrators, tax preparation services and payroll and tax product processors announced a new program with five initiatives:

1. **Taxpayer identification.** Coalition members will review transmission data such as Internet Protocol numbers.
2. **Fraud identification.** Members will share fraud leads and aggregated tax return information.
3. **Information assessment.** The Refund Fraud Information Sharing and Assessment Center will help public and private sector members share information.
4. **Cybersecurity framework.** Members will be required to adopt the National Institute of Standards and Technology cybersecurity framework.
5. **Taxpayer awareness and communication.** Members will increase efforts to inform the public about identity theft and protecting personal data.

YOUR ROLE IN PREVENTING FRAUD

But the IRS and tax preparation professionals can't fight fraud without your help. Be sure to keep your Social Security card secure, and if businesses (including financial institutions and medical providers) request your Social Security number, ensure they need it for a legitimate purpose and have taken precautions to keep your data safe. Also regularly review your credit report. You can obtain free copies from all three credit bureaus once a year. ■

ROAD RULES: DEDUCTING BUSINESS TRAVEL EXPENSES

If you travel for business, you'll want to ensure that the expenses you incur while doing so are tax deductible. IRS rules are strict, and improperly substantiated deductions can cost you.

AWAY FROM HOME RULE

Generally, ordinary and necessary expenses of traveling away from home for work are deductible. For the expenses to qualify, you must be away from your tax home — your regular place of business — substantially longer than an ordinary day's work and need to sleep or rest to meet the work demands while away.

You don't necessarily have to stay away from home overnight to satisfy the rest requirement. If you travel for business purposes throughout the day but return home that night to sleep, you may still be considered "away from home" for tax purposes. In this case, expenses you incur for such trips are still deductible.

Also, the trip must be primarily for business purposes. If your trip involves both business and personal activities, a portion of the travel expenses may be nondeductible personal expenses.

DEDUCTIBLE TRAVEL EXPENSES

Most airfare, taxis, rental cars, lodging, meals (with exceptions), tips and business phone calls are tax deductible. But you can't write off "lavish or extravagant" travel expenses, so be prepared to prove that your patronage of a high-end restaurant or five-star hotel was reasonable under the circumstances.

Generally, only 50% of business-related meal and entertainment expenses are deductible. If your employer reimburses you under an accountable plan (see below), the 50% limit applies to your employer rather than you.

You must substantiate deductions for lodging — and for other travel expenses greater than $75 — with adequate records. These include credit card receipts, canceled checks or bills. Records should indicate the amount, date, place, essential character of the expense and business purpose.

BE ACCOUNTABLE

If your employer reimburses your travel expenses, an accountable plan enables the company to deduct the reimbursements, but the reimbursements aren't included in your income as salary and aren't subject to FICA and other payroll tax obligations. Although you may still be able to deduct some or all business travel expenses without an accountable plan, such deductions are available only if you itemize and your expenses and other miscellaneous deductions exceed 2% of your adjusted gross income.

For reimbursed expenses to qualify under an accountable plan, you must have paid or incurred them while on company business and reported the expenses to your employer within a reasonable time (usually within 60 days). You also must return any excess reimbursements — usually within 120 days after they were paid or incurred.

Generally, to be reimbursable on a tax-free basis, your travel must meet the "away from home" rule discussed earlier. However, your employer can reimburse local lodging expenses if the lodging is temporary and necessary for you to participate in or be available for a bona fide business meeting or function. The expenses involved must be otherwise deductible by you as a business expense (or be expenses that would otherwise be deductible if you paid them).

EXCEPTIONS HAPPEN

As with most IRS rules, there are exceptions to which travel expenses you can deduct. If you're unsure about some expenses, give us a call. ■

HOPING TO GROW YOUR BUSINESS?

Start with the financing

Let's say you've drafted a strategic growth plan that discusses in detail the new products and markets that you hope will power your company's future growth. You've performed extensive market research and are confident that your offerings will appeal to customers and that you know how to reach them. Unfortunately, if your plan covers only such topics as product development, manufacturing, distribution, sales and marketing, it probably won't succeed.

To avoid potential cash-flow issues and other financial crises, your strategic plan should specify precisely how you'll fund your growth initiatives. If your company is sitting on a pile of cash just waiting to be invested, you're lucky. Most businesses must finance growth with equity or debt.

EQUITY ISN'T NECESSARILY EASY

Using your own equity in the business to raise capital can be a good solution. However, selling ownership to outside investors, such as private equity firms and venture capitalists, isn't always as easy as it sounds. For starters, you'll need a professional appraisal of your company and you'll have to find investors who believe in your growth strategy — and ability to execute it.

Equity financing doesn't need to be repaid. But, depending on how much equity you sell and how successful your company is in reaching its goals, equity can end up being expensive in the long run. For example, you may need to give up some control to investors, which can lead to disputes over major decisions.

PRICE OF DEBT

Debt financing, on the other hand, *does* have to be repaid, and will cost you interest. Depending on the size and financial health of your company and the nature of your growth plans, you may be able to qualify for:

- Term loans,
- Commercial mortgages,
- Construction loans,
- Equipment leases, and
- Small Business Administration loans.

Banks require borrowers to provide detailed financial information and pledge collateral, possibly including your home and other personal assets. They may also hold you to covenants that, for example, prevent you from borrowing additional money until their loan is repaid.

REASONABLE EXPECTATIONS

We stand ready to help you weigh the advantages and drawbacks of the financing options available to your business. We can also help you evaluate your growth assumptions to ensure that your profit expectations are reasonable. ■

TAX CALENDAR

January 15

- Individual taxpayers' final 2015 estimated tax payment is due unless Form 1040 is filed by February 2, 2016, and any tax due is paid with the return.

February 1

- Most employers must file Form 941 (Employer's Quarterly Federal Tax Return) to report Medicare, Social Security and income taxes withheld in the fourth quarter of 2015. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the quarter in full and on time, you have until February 10 to file the return. Employers who have an estimated annual employment tax liability of $1,000 or less may be eligible to file Form 944 (Employer's Annual Federal Tax Return).
- Give your employees their copies of Form W-2 for 2015. If an employee agreed to receive Form W-2 electronically, have it posted on the website and notify the employee.
- Give annual information statements to recipients of certain payments you made during 2015. You can use the appropriate version of Form 1099 or other information return. Form 1099 can be filed electronically with the consent of the recipient.
- File Form 940 [Employer's Annual Federal Unemployment (FUTA) Tax Return] for 2015. If your undeposited tax is $500 or less, you can either pay it with your return or deposit it. If it is more than $500, you must deposit it. However, if you deposited the tax for the year in full and on time, you have until February 10 to file the return.
- File Form 945 (Annual Return of Withheld Federal Income Tax) for 2015 to report income tax withheld on all nonpayroll items, including backup withholding and withholding on pensions, annuities, IRAs, etc. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 10 to file the return.
- File Form 943 (Employer's Annual Federal Tax Return for Agricultural Employees) to report Social Security and Medicare taxes and withheld income for 2015. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 10 to file the return.

February 29

- The government's copy of Form 1099 series returns (along with the appropriate transmittal form) should be sent in by today. However, if these forms will be filed electronically, the due date is extended to March 31.
- The government's copy of Form W-2 series returns (along with the appropriate transmittal Form W-3) should be sent in by today. However, if these forms will be filed electronically, the due date is extended to March 31.

March 15

- 2015 income tax returns must be filed or extended for calendar-year corporations. If the return is not extended, this is also the last day for calendar-year corporations to make 2015 contributions to pension and profit-sharing plans.

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CONSOLIDATE ACCOUNTS AND SIMPLIFY YOUR FINANCIAL LIFE

If you've accumulated many bank, investment and other financial accounts over the years, you might consider consolidating some of them. Having multiple accounts requires you to spend more time tracking and reconciling financial activities and can make it harder to keep a handle on how much you have and whether your money is being invested advantageously.

Start by identifying the accounts that offer you the best combination of excellent customer service, convenience, lower fees and higher returns. Hold on to these and consider closing the rest, keeping in mind the bank account amounts you'll be consolidating. The Federal Deposit Insurance Corporation generally insures $250,000 per depositor, per insured bank. So if consolidation means that your balance might exceed that amount, it's better to keep multiple accounts. You should also keep accounts with different beneficiaries separate.

When closing accounts, make sure you stop automatic payments or deposits and destroy checks and cards associated with them. To prevent any future disputes, obtain letters from the financial institutions stating that your accounts have been closed. Closing an account generally takes several weeks. ■