

## 2014 Cost-of-Living Limits

IRA Contribution Limit \$5,500

IRA 50 & Over Catch-up

Contribution \$1,000

401(k) Deferral Limit \$17,500

401(k) 50 & Over Catch-up

Contribution \$5,500

SIMPLE Deferral limit \$12,000

SIMPLE 50 & Over Catch-up

Contribution \$2,500

Annual Compensation limit \$260,000

Defined Contribution IRC Sec 415

limit \$52,000

Compensation limit for SEP eligibility

\$550

IRC Section 179 \$25,000

Estate Tax Exclusion

\$5,340,000

Gift Tax Annual Exclusion

\$14,000

Social Security Wage Base \$117,000

[2013 & Prior Years' Limits](#)

# JENNIFER A. JONES, CPA, LTD.

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Client Newsletter

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**Calendar Notes Not Enough to Substantiate Unreimbursed Employee Expenses:** A taxpayer, who was employed as an outside direct sales representative, used his truck to call on customers. Per company policy, he wasn't reimbursed for his expenses. To keep track of his truck expenses, he kept records in a calendar planner book by documenting his truck's odometer readings at the beginning and end of each month, but no other information related to vehicle usage (personal or business) was included. On his Schedule A for the year, the taxpayer claimed a deduction of over \$20,000 in vehicle expenses, based on the standard mileage rate, which the IRS disallowed for lack of substantiation. The Tax Court agreed with the IRS, concluding that although the taxpayer had unreimbursed travel expenses related to his employment, he failed to follow the strict substantiation requirements of IRC Sec. 274(d). The taxpayer's calendar, while contemporaneous, did not sufficiently document the business purpose of each business use of his truck. *Garza*, TC Memo 2014-121 (Tax Ct.).

**Excessive 401(k) Deductions:** To catch corporations that are claiming excessive deductions for 401(k) and similar plan contributions, the IRS is matching the contribution deductions listed on Form 1120 with the amount on the same firm's annual Form 5500. If the two amounts disagree by more than \$1,000, the IRS is asking the employer to explain the difference.

**IRS Audit Targets:** One IRS audit target is small firms that do not apply backup withholding to Independent Contractors that have not provided a valid TIN for the employer to put on the 1099. The IRS has also indicated that it will audit more Sub-S Corporations with a special focus on worker classifications, especially payments to owner/employees. Corporate officers are always employees. Board members may be employees, depending on the facts and circumstances.

**Electronic Accounting Records:** You are allowed to record transactions in your accounting software data file and use reports from it to prepare tax returns. But to prove or support the transactions, you still need your source documents. Although no federal regulation specifically requires that supporting documentation be on paper, it is unclear whether IRS is willing or able to audit all-electronic taxpayers. If you use electronic documentation such as images and PDFs, keep them as long as you would keep paper records and be prepared to satisfy the IRS that such records are contemporaneous with the transactions and have not been altered since.

Be extremely careful revising or altering electronically recorded transactions, and limit access to the software by others. The IRS may ask for a full copy of your data file as of the day of the audit to check the audit trail for when various transactions were recorded and if/when they were revised.

## 2014 Standard Mileage Rates:

Business mileage rate **\$0.56**

Medical & Moving mileage rate **\$0.235**

Charitable mileage rate **\$0.14/mile**

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## **Have a Topic or Question?**

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[Newsletter Topic](mailto:NewsletterTopic@jajonescpa.com)

**IRS Fights Fraud with New Direct Deposit Limits:** In an effort to combat fraud and identity theft, new IRS procedures effective January 2015 will limit the number of refunds electronically deposited into a single financial account or pre-paid debit card to three. The direct deposit limit will prevent criminals from easily obtaining multiple refunds. The limit applies to financial accounts,

such as bank savings or checking accounts, and to prepaid, reloadable cards or debit cards.

However, the limitation may affect some taxpayers, such as families in which the parent's and children's refunds are deposited into a family-held bank account. Taxpayers in this situation should make other deposit arrangements or expect to receive paper refund checks.

The new limitation also will protect taxpayers from preparers who obtain payment for their tax preparation services by depositing part or all of their clients' refunds into the preparers' own bank accounts. The new direct deposit limits will help eliminate this type of abuse. Direct deposit must only be made to accounts bearing the taxpayer's name.

**Scam Phone Calls Continue; IRS Identifies Five Easy Ways to Spot Suspicious Calls:** The Internal Revenue Service issued a consumer alert today providing taxpayers with additional tips to protect themselves from telephone scam artists calling and pretending to be with the IRS, or showing up with authentic looking fake IRS badges.

These callers and con artists may demand money or may say you have a refund due and try to trick you into sharing private information. These con artists can sound convincing when they call. They may know a lot about you, even the last four digits of your SSN or FEIN, and they usually alter the caller ID to make it look like the IRS is calling. They use fake names and bogus IRS identification badge numbers. If you don't answer, they often leave an "urgent" callback request. They may threaten to confiscate your driver's license or business license if payment is not made immediately. They may have a cohort call claiming to be from the local police department or sheriff to repeat the threats.

"These telephone scams are being seen in every part of the country, and we urge people not to be deceived by these threatening phone calls," IRS Commissioner John Koskinen said. "We have formal processes in place for people with tax issues. The IRS respects taxpayer rights, and these angry, shake-down calls are not how we do business." Virginia is cited as one of the states with the high incidents of these scams.

The IRS reminds people that they can know pretty easily when a supposed IRS caller is a fake. Here are five things the scammers often do but the IRS will not do. Any one of these five things is a tell-tale sign of a scam. The IRS will never:

- Call you about taxes you owe without first mailing you an official notice.
- Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe.
- Require you to use a specific payment method for your taxes, such as a prepaid debit card.
- Ask for credit or debit card numbers over the phone.
- Threaten to bring in local police or other law-enforcement groups to have you arrested for not paying.

If you get a phone call or visit from someone claiming to be from the IRS and asking for money, here's what you should do:

- If you know you owe taxes or think you might owe, call the IRS at 1.800.829.1040. The IRS workers can help you with a payment issue.
- If you know you don't owe taxes or have no reason to believe that you do, report the incident to the Treasury Inspector General for Tax Administration (TIGTA) at 1.800.366.4484 or at [www.tigta.gov](http://www.tigta.gov).
- If you've been targeted by this scam, also contact the Federal Trade Commission and use their "FTC Complaint Assistant" at [FTC.gov](http://FTC.gov). Please add "IRS Telephone Scam" to the comments of your complaint.
- You may even want to contact the local police.

Remember, too, the IRS does not use unsolicited email, text messages or any social media to discuss your personal tax issue. For more information on reporting tax scams, go to [www.irs.gov](http://www.irs.gov) and type “scam” in the search box. Additional information about tax scams are available on IRS social media sites, including [YouTube](#) and [Tumblr](#) where people can search “scam” to find all the scam-related posts. [Back to Top](#)

**Bad Debt Deduction Disallowed for Advances to Employee:** A taxpayer hired a new employee to work in his consulting business, knowing that the employee was having financial problems. In a letter, the taxpayer offered to informally loan money to the employee, indicating that he expected the employee would soon be earning his own commissions. Over the next few years, the taxpayer advanced over \$27,000 to the employee without a promissory note showing typical loan terms (interest and fixed repayment schedule), and no collateral was provided. Additionally, the employee misappropriated company funds by withdrawing them and depositing them into his own bank accounts. Upon ending their business relationship, the taxpayer claimed a business bad debt deduction of \$32,550 and attached a letter of explanation. The IRS disallowed the deduction because none of the typical indications of a bona fide debt were present. The Tax Court noted that the taxpayer's knowledge of the employee's financial problems at the time of advancing the funds demonstrated that the taxpayer did not have a reasonable expectation of being repaid. *Ronald R. Dickinson*, TC Memo 2014-136 (Tax Ct.). Lesson here is that Employers making advance payments to employees should classify such amounts as wages at the time of payment or be sure to obtain the necessary support to show that such payments are intended to be loans.

## IMPORTANT HEALTH CARE INSURANCE CHANGES

**Employers Cannot Reimburse or Pay Individual Health Care Policies on a Pretax Basis:** In recently posted employer healthcare arrangement FAQs, the IRS warns employers about using employer payment plans to reimburse employees on a pretax basis for health insurance premiums the employee pays on an individual policy (either through a qualified health plan in the Marketplace or outside the Marketplace). As explained in Notice 2013-54, these employer payment plans are considered to be group health plans subject to the market reforms, including the prohibition on annual limits for essential health benefits and the requirement to provide certain preventive care without cost sharing. Notice 2013-54 clarifies that such arrangements cannot be integrated with individual policies to satisfy the market reforms. Consequently, such an arrangement fails to satisfy the market reforms and may be subject to a \$100/day excise tax per applicable employee (which is \$36,500 per year, per employee) under IRC Sec. 4980D. (The term *employer payment plan* generally does not include an arrangement under which an employee has the option of receiving an after-tax premium reimbursement or taking that amount in cash compensation. Thus, employers can reimburse employees for individual policies on an after-tax basis without violating market reforms.) The IRS FAQs can be found at [www.irs.gov/uac/Newsroom/Employer-Health-Care-Arrangements](http://www.irs.gov/uac/Newsroom/Employer-Health-Care-Arrangements).

**Medical Reimbursement Plans (MRP):** If employees are getting an MRP reimbursement have a group health insurance policy, whether through your group policy or another employer, then it is business as usual for those employees in regards to the MRP. Employees who have individual health insurance and are not covered by your group plan or their spouse's employer's group plan, cannot get MRP reimbursements. If they do, the employer faces a \$100 per day per employee penalty. If you want to keep your MRP because it is an appreciated fringe benefit, but you still want to help the one or two employees with individual health insurance policies, then the best alternative for them is generally a taxable bonus

**Sub-S Stockholder's Health Insurance Individual Policies:** With respect to more-than-2% S shareholders and partners, where prior guidance has directed that health insurance premiums must be paid or reimbursed by the entity, that arrangement generally may continue. For example, under Notice 2008-1, an S corporation shareholder must have the S corporation reimburse the individual premium, report it to the shareholder as compensation on the Form W-2, and then wash that extra income out on page one of the Form 1040 with the self-employed health insurance deduction under IRC Sec. 162(l). These arrangements are not using employer benefit status (the benefit is included in the shareholder's taxable wages) and should be permissible going forward. However, these arrangements have been exempt from FICA in the past; that does not appear to be permissible going forward because FICA-free status requires an employer health plan under IRC Sec. 3121(a)(2). Accordingly, **for the 2014 tax year and after, the premium reimbursement should be reported**

as taxable wages for both income tax and Social Security tax purposes (in order to avoid the \$100 per employee/day penalty).

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**New Procedures for Validating Social Security Numbers to Prevent Back-up Withholding:** The IRS has revised the procedures taxpayers must use to validate their Social Security Numbers (SSNs) in response to receiving a second B notice from a payer that they have provided a mismatched name and SSN combination. Payers must send B Notices to payees after being notified by the IRS that the name/SSN furnished by a payee is mismatched. The "second B notice" is sent out when the payer receives a second IRS notification of a name/SSN mismatch within three years from the date they previously received a mismatch notice from the IRS for the same payee. To stop back-up withholding after receiving a second B notice, the new procedures require a payee to validate his or her SSN by providing the payer a copy of a Social Security card that (1) has a different name and SSN combination than that appearing on the second B notice, or (2) is dated no earlier than six months prior to the date of the second B notice. The new procedures are effective for name and SSN validations after 7/31/14. Rev. Proc. 2014-43, 2014-32 IRB .

**Business Deductions Disallowed for Lack of Substantiation:** The taxpayer, an employee of a telecommunications company and a self-employed nutritional supplement salesperson, deducted expenses on Schedule C for car and truck, travel, meals, and entertainment allegedly relating to his sales business. (His travel costs as an employee were fully reimbursed by the telecommunications company.) Although the taxpayer kept a mileage record on his calendar, the documentation lacked specific information on how the mileage was related to his sales business or where he was on certain days. Additionally, his receipts to support his travel expenses didn't show that he actually paid such amounts or that they related to his sales business. The taxpayer provided a spreadsheet as support for his claimed meals and entertainment expenses, noting "Interview/team training" as the business purpose for each entry. However, this contradicted the taxpayer's admission that many of the meals were eaten alone. The Tax Court concluded that the records were too unreliable to be considered "adequate records" or "sufficient evidence corroborating the taxpayer's own statement," as required by IRC Sec. 274(d) . Thus, most of these deductions were disallowed. *Marcus O. Crawford*, TC Memo 2015-156 (Tax Court).

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