TaxTips

Keeping You Informed • Summer 2014

Covenant CPA LLC | *Taxpro@Covenant-cpa.com* | www. Covenant-CPA.com

Covenant CPA LLC
PO Box 250
Willow Street, PA 17584

Our mission is to partner with businesses and families to achieve financial success through Biblical principals in order to further God's kingdom.

NEWS FLASH

Our Employer Identification number has changed due to our reorganization to an LLC. Our new number is 45-5690112 effective June 1, 2014. Please update your records with our new name and EIN. Also, Richard Landis has decided to leave Covenant CPA so we will be rescheduling appointments from the Lancaster office to either Willow Street or Ephrata.

2733Willow Street Pike
Willow Street, PA 17584

717-464-2951

226 S Reading Road
Ephrata, PA 17522

717-733-2218

Affordable Care Act (ACA) Reminders

Reimbursement of Individual Policies
ACA reminder for group health plans

Do you reimburse employees for individual policies? If you do, then you may be in violation of recently issued IRS guidance. Up until now, it's been unclear whether such a practice is in compliance with the *Affordable Care Act* (ACA). The IRS and Department of Labor (DOL) interpret that a business engaging in this practice is actually creating its own group health plan. A group health plan must not provide an annual limitation on benefits. The amount paid for insurance is deemed to be the annual limitation; thus it would fail the requirements.

Although such an arrangement is still considered tax-free, it's subject to a penalty because it fails to meet certain group health plan requirements. This penalty imposes an amount of $100 per day, per participant.

Notice of Coverage to Newly Hired Employees
ACA reminder for employee orientations

The *Affordable Care Act* (ACA) requires employers to provide all new hires with a written notice about ACA's Health Insurance Marketplace. This requirement is found in Section 18B of the *Fair Labor Standards Act* (FLSA). ACA's exchange notice requirement applies to employers that are subject to the FLSA. Employers must provide the exchange notice to each employee, regardless of plan enrollment status or part-time or full-time status. Employers are not required to provide a separate notice to dependents or other individuals who are or may become eligible for coverage under the plan but who are not employees. Employees hired after October 1, 2014, must be provided this notice within 14 days of their start date.

The exchange notice should:

- Inform employees about the existence of the exchange and describe the services provided and the manner in which the employee may contact the exchange to request assistance.
- Explain how employees may be eligible for a premium tax credit or a cost-sharing reduction if the employer's plan does not meet certain requirements.
- Inform employees that if they purchase coverage through the exchange, they may lose any employer contribution toward the cost of employer-provided coverage, and that all or a portion of this employer contribution may be excludable for federal income tax purposes.
- Include contact information for the exchange and an explanation of appeal rights.

The Department of Labor has provided two sample exchange notices, one for employers who offer a health plan to some or all employees and one for employers who do not offer a health plan. Employers may use one of these models, as applicable, or a modified version, provided the notice meets the content requirements described above.

Call our office if you need employee notices.

Seasonal Worker Exception in ACA
ACA reminder for future planning

The employer mandate, a portion of the *Affordable Care Act* (ACA) that penalizes employers for not offering health insurance to full-time employees, has numerous exceptions to ease the burden on employers. One of these exceptions is known as the seasonal worker exception. This exception provides relief for employers who employ 50 full-time employees or more in the preceding year, but part of the reason for breaking the 50-employee threshold is due to seasonal employment. A seasonal worker is defined by the Department of Labor as:

> "Labor is performed on a seasonal basis where, ordinarily, the employment pertains to or is of the kind exclusively performed at certain seasons or periods of the year and which, from its nature, may not be continuous or carried on throughout the year."

This definition is ambiguous and until the IRS releases further regulations, the employer must use good faith to determine whether a worker is seasonal. The regulations state that if the employer breaks the 50 full-time employee threshold for four calendar months or less due to seasonal workers, the employer is not an applicable large employer as defined by the employer mandate and will not owe penalties. These months do not need to be consecutive.

Although the employer mandate has been pushed back to January 1, 2015, keep this in mind for future planning if your business is close to having 50 full-time employees.

Luxury Automobile Depreciation Limits for 2014

Specific annual dollar limitation set

Automobiles, trucks and vans are subject to special annual depreciation limits, known as the luxury auto limits. The limits begin to apply for cars costing at least $15,800. If a vehicle is four-wheeled, used mostly on public roads, and has an unloaded gross weight of no more than 6,000 pounds, the car is considered a luxury automobile. For this purpose, trucks and vans are passenger automobiles that are built on a truck chassis, including minivans and sport utility vehicles that are built on a truck chassis.

	Automobiles	Trucks & Vans
1st Year (2014)	$3,160	$3,460
2nd Year	$5,100	$5,500
3rd Year	$3,050	$3,350
4th Year	$1,875	$1,975

The truck and van limits are slightly higher than the limits that applied to trucks and vans placed in service during 2013 (and were not allowed a bonus depreciation deduction). Sport Utility Vehicles (SUVs) and pickup trucks with a gross vehicle weight rating (GVWR) in excess of 6,000 pounds continue to be exempt from the luxury vehicle depreciation caps based on a loophole in the operative definition.

Divorce, Dependents and Decrees

Only one parent may claim a child in a divorce situation

In general, if you want to claim your child as a dependent, you must be the custodial parent. A custodial parent is the parent with whom the child lived with for the greater number of nights during the year. If the child was with each parent for an equal number of nights, the custodial parent is the parent with the higher adjusted gross income, if the parents can't agree to who claims the child.

If you are the noncustodial parent, the custodial parent must sign a written declaration that he or she will not claim the child as a dependent; you must attach this written declaration to your tax return. Without the proper declaration, the IRS will deny your dependency exemption. To release the dependency exemption, the custodial parent may use either Form 8332, *Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent*, or a similar statement containing the same information as the form.

If the divorce decree or separation agreement went into effect after 1984 and before 2009, the noncustodial parent can attach certain pages from the divorce decree or agreement instead of Form 8332, provided that these pages are substantially similar to Form 8332. The decree or agreement must state all three of the following:
The noncustodial parent can claim the child as a dependent without regard to any condition (such as payment of support).

1. The other parent will not claim the child as a dependent.
2. The years for which the claim is released.

The noncustodial parent must attach all of the following pages from the decree or agreement.

- Cover page (include the other parent's SSN on that page).
- The pages that include all of the information identified in 1 - 3 above.
- Signature page with the other parent's signature and date of agreement.

Quick Tips

- The per diem allowance for the substantiation method from October 1, 2013, through September 30, 2014, is $46 for meals and incidentals and $83 for lodging. No per diem for PA.

2014 Standard Mileage Rates

Business	56¢
Depreciation Component	22¢
Medical	23.5¢
Moving	23.5¢
Charity	14¢

- For 2014, Section 179 has been restored to its original limits of $25,000.
- The maximum wage that is subject to social security tax for 2014 is $117,000.
- For the tax year 2014, the annual gift tax exclusion is $14,000 to each person. The gift tax exemption amount is $5,340,000.
- The top tax rate for qualified dividends is permanently set at 20% for taxpayers with taxable income in the highest tax bracket.
- The personal exemption amount increased to $3,950 for 2014.
- For 2014, kiddie tax applies to children with unearned income greater than $2,000.
- For 2014, compensation paid for domestic service in an employer's home is not subject to FICA until the cash wages paid are $1,900 or more.

Three Types of Education Benefits Available

No double benefits allowed

An education credit helps with the cost of higher education by reducing the amount of tax owed on your tax return. If the credit reduces your tax to less than zero, you may get a refund. There are two education credits available: the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC).
A deduction reduces the amount of income that is subject to tax, thus generally reducing the amount of tax you may have to pay. The tuition and fees deduction can reduce the amount of your income subject to tax by up to $4,000.

You can't take more than one education benefit for the same student using the same expenses. So, you can't take the AOTC, the LLC or the tuition and fees deduction for the same expenses for the same student in the same tax year. Also, if you receive tax-free educational assistance, such as a grant, you need to subtract that amount from your qualified education expenses.

Determining which one of these education benefits will provide you with the most savings can be tricky, but we can help determine what's best for your tax situation. Here are some criteria we consider:

Criteria	AOTC	LLC	Tuition and Fees Deduction
Maximum credit or benefit	Up to $2,500 credit per eligible student	Up to $2,000 credit per return	Up to $4,000 taxable income reduction per return
Refundable or nonrefundable	40% of credit	Not refundable	Does not apply
Limit on MAGI for married filing jointly	$180,000	$128,000	$160,000
Number of years of post-secondary education available	Only if student hasn't completed 4 years of postsecondary education before 2014	All years of postsecondary education and for courses to acquire or improve job skills	All years of postsecondary education
Number of tax years credit available	4 tax years per eligible student including any years former Hope credit claimed	Unlimited	Unlimited
Type of program required	Student must be pursuing a degree or other recognized education credential	Student does not need to be pursuing a degree or other recognized education credential	Student must be enrolled at eligible educational institution for one or more courses
Number of courses	Student must be enrolled at least half time for at least one academic period beginning in 2014	Available for one or more courses	Available for one or more courses at eligible educational institution
Qualified expenses	Tuition, required enrollment fees and course materials needed for course of study	Tuition and fees required for enrollment or attendance	Tuition and fees required for enrollment or attendance
Payments for academic periods	Made in 2014 for academic periods beginning in 2014 or the first 3 months of 2015		

We appreciate referrals from our loyal clients. If you know someone who is starting a business or needs help with the IRS, please pass this newsletter along to him.