



# Tax Tips

Keeping You Informed • Winter 2016

## Your Trusted Advisor

Covenant CPA LLC

*Taxpro@Covenant-cpa.com*

[www.Covenant-CPA.com](http://www.Covenant-CPA.com)

2733 Willow Street Pike N, Willow Street, PA 17584  
226 S Reading Road, Ephrata, PA 17522

Phone: 717-464-2951  
Phone: 717-733-2218

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

### New Filing Due Dates for some Returns!

Form	2017 Filing Due Date	Previous Due Date
C Corporations (1120)	April 18*	March 15
S Corporations (1120S)	March 15	No Change
Partnerships (1065)	March 15	April 15
Sole Proprietorships (1040)	April 18*	No Change

\*Due to the observance of Emancipation Day in Washington D.C., the 2017 filing date is April 18, rather than April 15, for these particular forms.

### The Advance Premium Tax Credit

*Be sure to report changes in circumstance to avoid receiving too much or too little*

If you purchased 2016 health care coverage through the Health Insurance Marketplace, you may have chosen to have advance payments of the premium tax credit paid to your insurance company to lower the monthly premiums. If this is the case, it is important to let the Marketplace know about significant life events, also known as changes in circumstance.

These changes may affect the premium tax credit. Reporting the changes will help you avoid getting too much or too little advance payment of the premium tax credit.

Changes in circumstance that should be reported to the Marketplace include:

- An increase or decrease in income.
- Marriage or divorce.
- The birth or adoption of a child.
- Starting a job with an employer that offers health insurance.
- Gaining or losing eligibility for other health care coverage.
- Change of residence.

# The Rise of Identity Theft and Tax Scams

## How to avoid being a victim

Each year, tax scams seem to run more and more rampant, making proper security and privacy protocols critically important. According to the Bureau of Justice statistics, approximately 1 in 18 Americans have their identities stolen each year. With such a consistent rise in identity theft and tax scams, it is imperative that you keep your information safe and secure from criminals, not only in a work setting, but also in your personal life.


Here are some methods often used by scammers:

- **Scare tactics.** Sophisticated hoaxers try to scare people into making immediate payments. They may threaten arrest, deportation or the revocation of your driver's license or professional license if you don't pay. Emails from scammers will often contain a fake IRS document with a phone number or email address to reply to.
- **Caller ID spoofs.** Scammers are known to alter caller IDs to make it appear that the IRS is calling. Callers will use IRS titles and fake badge numbers to appear legitimate. They may use online resources to get your personal information to make the call sound official.
- **Fake IRS letterhead.** Scam artists will copy official IRS letterhead to use in email or regular mail sent to victims.

### Keep in mind, the IRS will never:

- Call you about your tax bill without first sending you a bill in the mail.
- Demand that you pay taxes and not allow you to question or appeal the amount that you owe.
- Require that you pay your taxes a certain way. For instance, require that you pay with a prepaid debit card or any specific type of tender.
- Ask for credit or debit card numbers over the phone.
- Threaten to bring in police or other agencies to arrest you for not paying.
- Threaten you with a lawsuit.

**More than anything, it is important to remember to never give away personal information by phone or email to anyone you do not know!**

 Be Safe. Send calls or letters claiming to be tax related to us.

## Convenient and Secure Tax Payment Methods

### Do you know all of your options?

If you are concerned about tax payments getting lost or stolen in the mail, or if you just want to save a stamp, the IRS and Pennsylvania offer several online payment options. An individual taxpayer can use IRS Direct Pay ([www.irs.gov/payments/direct-pay](http://www.irs.gov/payments/direct-pay)) and a business should use the EFTPS website ([www.eftps.gov/eftps](http://www.eftps.gov/eftps)). The IRS options will allow you to look up payment history and modify or cancel your payment up to two business days before your payment date. The IRS also has a mobile app IRS2Go for you mobile bankers.

Pennsylvania's online payment option is at ([www.revenue.pa.gov](http://www.revenue.pa.gov)). Click on *online services*, select "*Individuals*" and then *Personal Income Tax Payment Services*" to create a user name and password. A Business can make payments by selecting *Businesses* from the online services menu and registering for PA's e-TIDES system. Both the IRS and Pennsylvania will accept credit card payments, but you will be charged a processing fee.

Afraid you'll miss a payment due date? You can schedule electronic payments for balance due and your Federal and Pennsylvania estimated tax payments when you file your taxes. We are unable to set-up online payment for any local payments. Each county should have a payment option on their website. Lancaster County is the most common one for our clients and you can access at [www.lctcb.org](http://www.lctcb.org) and create an account to direct pay.

## Eligibility Requirements for Two Popular Tax Credits

### *IRS requires us to ask you more questions*

In an effort to prevent taxpayers from improperly claiming the Child Tax Credit (CTC) and American Opportunity Tax Credit (AOTC), the IRS is implementing additional preparer due diligence requirements and requesting preparers to verify more information from clients who may be eligible to claim these credits. Because of these new requirements, our office will be asking more questions to verify your eligibility. Following are some of the “tests” we will use to determine whether you qualify.

The CTC is a tax credit that may be worth as much as \$1,000 per qualifying child, depending on your income. To qualify for this credit, a child must pass these six tests:

- **Age Test.** A child must have been under age 17 at the end of the tax year.
- **Relationship Test.** The child must either be your son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister or a descendent of any of these individuals, which includes your grandchild, niece or nephew.
- **Support Test.** The child must not have provided more than half of his or her own support.
- **Dependent Test.** You must claim the child as a dependent on your federal tax return.
- **Citizenship Test.** The child must be a U.S. citizen or national, or a resident of the U.S., Canada or Mexico.
- **Residence Test.** Generally, the child must have lived with you for more than half of the tax year.

The AOTC is a credit for qualified education expenses paid for an eligible student for the first four years of higher education. You can get a maximum annual credit of \$2,500 per eligible student. To be eligible for this credit, the student must:

- Be pursuing a degree or other recognized education credential.
- Be enrolled at least half time for at least one academic period beginning in the tax year.
- Not have finished the first four years of higher education at the beginning of the tax year.
- Not have claimed the AOTC or the former Hope credit for more than four tax years.
- Not have a felony drug conviction at the end of the tax year.

In addition to the eligibility requirements above, there are also income limits for claiming these credits. We can help you determine whether your income qualifies you for these credits.

## Education Credits & Deductions

Credit/Deduction/Account	Maximum Credit/Deduction	Income phase-outs begin at AGI:	
American Opportunity Tax Credit	\$2,500	\$160,000 to \$180,000	Joint
		\$80,000 to \$90,000	All others
Lifetime Learning Credit	\$2,000	\$111,000 to \$131,000	Joint
		\$55,000 to \$65,000	All others
Student Loan Interest Deduction	\$2,500	\$130,000 to \$160,000	Joint
		\$65,000 to \$80,000	All others
Savings Bond Interest Deduction	Limited to amount of qualified expenses	\$116,300 to \$146,300	Joint
		\$77,550 to \$92,550	All others
Coverdell	\$2,000 maximum contribution (non-deductible)	\$190,000 to \$220,000	Joint
		\$95,000 to \$110,000	All others

## Capital Gains Tax Rates

Assets held less than 1 year	Marginal income rate
Assets held longer than 1 year	0% for taxpayers in the 10% or 15% brackets; 15% for taxpayers in the 25-35% bracket; 20% for taxpayers in the 39.6% bracket
Unrecaptured Sec. 1250 gains	25%
Collectibles	28%

## Independent Contractors and Taxes

### *The difference between contractors and employees*

It is vital for all employers to properly distinguish between what constitutes an employee and an independent contractor in order to ensure that everyone receives the proper tax treatment.

Independent contractors are generally defined as those who are in an independent trade, business or profession in which they offer services to the general public. These individuals have control over the work they do and how it will be done. The business owner has the right to control or direct only the result of the work. On the other hand, an employee is generally defined as an individual who performs services for you. As the employer, you can control what will be done and how it will be done.

Generally, employers must withhold income taxes, withhold, match and pay Social Security and Medicare taxes, and pay unemployment tax

on wages paid to employees. Business owners do not generally have to withhold or pay any taxes on payments made to independent contractors.

Form W-9, *Request for Taxpayer Identification Number and Certification*, and Form 1099-MISC, *Miscellaneous Income*, are necessary components of working with an independent contractor. Once you have determined that an individual you are paying is an independent contractor, you will need to have him or her complete a Form W-9. Be sure to keep the independent contractor's W-9 in your files for four years or longer, in case any questions arise from the worker or the IRS. Form 1099-MISC is most commonly used by employers to report payments made in the course of a trade or business to others for services. If you paid someone who is not your employee \$600 or more for services provided during the year, a Form 1099-MISC needs to be completed and provided to the independent contractor by January 31 of the year following payment.

## PA Unreimbursed Allowable Employee Business Expenses

State and federal rules for allowable business expenses differ. Per diem meals and lodging rates allowable for federal purposes are **not** allowable for PA. Only expenses actually incurred are deductible. The good news is that PA allows 100 percent of actual unreimbursed business expenses, but only if the employer **requires** the employee to incur the expense. PA may request a letter from the employer stating that the expense is required as a condition of employment.

## IRA – Individual Retirement Accounts

IRA Type	Contribution Limit	Catch-up at 50+	Phase-outs	
Non-Deductible	\$5,500	\$1,000	None	
Deductible	\$5,500	\$1,000	<b>Covered by qualified plan:</b>	
			\$98,000 to \$118,000	Joint
			\$61,000 to \$71,000	Single, HOH
Roth	\$5,500	\$1,000	\$0 to \$10,000	MFS
			<b>If one spouse covered by a plan:</b>	
			\$184,000 to \$194,000	Joint
Roth Conversion	\$5,500	\$1,000	\$184,000 to \$118,000	Joint
			\$117,000 to \$132,000	Single, HOH
			\$0 to \$10,000	MFS
Roth Conversion			None	

### NOTE:

PA is enhancing enforcement of employee expenses and may request receipts of all expenses claimed, and a letter from each employer. Documentation is the key to upholding your deductions. A letter from the taxpayer or the tax practitioner is not sufficient proof of expenses claimed.

Have you visited your Portal yet? Access your return anytime, anywhere! Reduce clutter! Go Portal!

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Willow Street – 2733 Willow Street Pike N, PO Box 250, Willow Street, PA 17584

Phone: 717-464-2951 / Fax: 717-464-2013

Ephrata – 226 South Reading Road, Ephrata, PA 17522

Phone: 717-733-2218 / Fax: 717-464-2013

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