

# HUDSON POPE PLLC

CERTIFIED PUBLIC ACCOUNTANT

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## Summer, 2015

As we head into the summer months, we are of course continuing to process extended returns and just to remind you, corporate, partnership, estate and trust income tax returns are extended until September 15, 2015 while individual income tax returns have an extension date of October 15, 2015. We appreciate our clients providing us with the organized information which allows us to better serve you and complete the returns in a timely manner. Additionally, to remind our clients, our office hours as of May 1<sup>st</sup> are 8:30 AM until 5:00 PM Monday through Thursday and 8:30 AM until noon on Fridays. We will still be available by appointment on Friday afternoon as needed.

### Interim Review of 2015 Filing Season

In an interim report released by The Treasury Inspector General for Tax Administration (TIGTA), the focus was on IRS customer service, fraud/identity theft, and the Affordable Care Act.

**Customer Service.** The TIGTA reported that the IRS level of customer assistance was 38.5 percent. According to TIGTA, this represents a decline of almost 40 percent compared to the 2014 filing season. Because of cuts to the agency's budget, the IRS is depending even more on technology-based services and external partners. The IRS is directing taxpayers to the most cost-effective IRS or partner tools available to provide the needed service. TIGTA cited the IRS's efforts to direct taxpayers away from telephone contact to using online tools such as Where's My Refund, the Interactive Tax Assistant, and the agency's mobile app IRS2Go. However, the online tools were not timely updated with the most current tax information. IRS commissioner John Koskinen attributed the poor customer service to cuts in the agency's budget, citing

### REMINDER:

Individual Estimated Income Tax Payments are due by June 15, 2015.

Now that April 15<sup>th</sup> has come and gone, an analysis issued by the Treasury Inspector General of this year's filing season gives an update on IRS customer service, tax refund fraud, and the challenges of the Affordable Care Act for taxpayers which we are highlighting in this issue. We are also including in this newsletter requirements for the retention of payroll records.

reduced hiring of extra seasonal help during the filing season.

**Tax refund fraud/Identity theft.** TIGTA reported that the IRS's efforts to prevent tax refund fraud are showing successful results. One step has been to lock the accounts of deceased individuals. As of January 2015, the IRS had locked approximately 26.3 million taxpayer accounts of deceased individuals. The locking of a tax account results in the rejection of an e-filed income tax return and prevention of a paper tax return from posting to the Master File if the Social Security number associated with the locked tax account is used to file an income tax return. As of March 5, 2015, TIGTA reported that the IRS had rejected approximately 37,000 fraudulent e-filed tax returns and stopped approximately 10,000 paper tax returns from posting to the Master File. The IRS also continued using a clustering filter tool to detect fraudulent individual income tax returns. The clustering filter tool groups tax returns based on characteristics that include the address, zip code,

and/or bank routing numbers. For the tax returns identified, the IRS next applies a set of business rules in an attempt to ensure that legitimate taxpayers are not included. Tax returns identified are held from processing until the IRS can verify the taxpayer's identity. The IRS also significantly increased the number of filters used to identify potentially fraudulent individual income tax returns. The IRS used 114 filters during the 2014 filing season and 196 filters during the 2015 filing season. The filters incorporate criteria based upon characteristics of confirmed identity theft tax returns. These characteristics include amounts claimed for income and withholding, filing requirements, prisoner status (to prevent the issuance of fraudulent refunds to individuals filing false tax returns using a prisoner Social Security number), taxpayer age, and filing history. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. If the individual's identity cannot be confirmed, the IRS removes the tax returns from processing.

**Affordable Care Act.** For the first time, individuals needed to report if they carried minimum essential health coverage,

were exempt, or were making a shared responsibility payment when filing their income tax returns. Individuals who obtained health insurance coverage through the Health Insurance Marketplace have to reconcile any advance payments of the premium assistance tax credit. TIGTA reported that as of February 26, 2015, the IRS had processed 737,148 individual income tax returns that reported more than \$2.1 billion in credits that were either received in advance or claimed at the time of filing. The IRS consequently had to develop contingency plans to ensure the accuracy of claims for the credit. These contingency plans included a combination of at-filing (when tax returns are processed) data filters and post-processing compliance activities to address those claims for the credit that could not be verified by Marketplace information. **Comment.** Explaining the complexities of the Affordable Care Act fell mostly on tax professionals with clients who did not have health coverage in 2014. Individuals who carried minimum essential health coverage in 2014 merely had to check a box in the 2014 return.

## Requirements for Keeping Payroll Records

**Income, Social Security and Medicare Taxes.** Employers must keep certain income, Social Security and Medicare tax records for a least four years after the due date of the employee's personal income tax return (generally, April 15) for the year in which the payment was made. This information includes:

- The employer identification number (EIN)
- The employee's name, address, occupation, and Social Security number;
- The total amount and date of each payment of compensation, and amounts withheld for taxes or otherwise (including reported tips and the fair market value of non-cash payments;
- The amount of compensation subject to withholding for federal income, Social Security, and Medicare taxes, and the corresponding amount withheld for each tax
- The pay period covered by each payment of compensation;
- The reason(s) why the total compensation and taxable amount for each tax rate are different, if applicable;
- The employee's W-4 form;
- Each employee's beginning and ending dates of employment;
- Any statements provided by the employee reporting tips received;

- Fringe benefits provided to employees and any required substantiation;
- Adjustment or settlements of taxes;
- Amounts and dates of tax deposits; and
- Copies of returns filed including Forms 941 (and any schedules), Copy D of Form W-2; and any W-2 forms sent to employees but returned as undeliverable

Employers must also retain claims for refund of withheld tax and fringe benefit records (health insurance, cafeteria, education assistance, adoption assistance, or dependent care). Employers subject to federal unemployment tax must also keep records for at least four years after the due date of Form 940 (FUTA tax return), or the date the required FUTA tax was paid, whichever is later, with respect to (1) the total amount of employee compensation paid during the calendar year, (2) the amount of compensation subject to FUTA tax, (3) state unemployment contributions made with separate totals for amounts paid by the employer and amounts withheld from employee's wages (4) all information shown on Form 940, (5) and the reasons why total compensation and the taxable amounts are different, if applicable.

**Company Name**  
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City, ST ZIP Code

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Phone number

**Fax:**  
Fax number

**E-Mail:**  
E-mail address

**Motto**

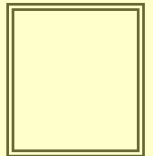
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