

# HUDSON POPE PLLC

CERTIFIED PUBLIC ACCOUNTANT  
310 New Street, New Bern, NC 28560  
252-635-1330; Fax: 252-634-2772

## Fall, 2014

We are now well into the third quarter of 2014 and we continue to wrap up the 2013 tax filing year. The corporate, partnership, and fiduciary income tax return extension deadline is September 15, 2014, while the individual return deadline date is October 15, 2014. We sincerely appreciate all of our clients' cooperation in getting us the information we need to complete the returns in a timely manner.

The second quarter of 2014 brought many tax developments from Washington, the IRS and the courts. This letter will highlight some of the more significant developments for you.

## REMINDER:

Individual Estimated Income Tax payments are due September 15, 2014.

Furthermore, the number of fraudulent returns filed has steadily increased in the past few years. We will discuss some of the measures Congress and the IRS are taking to make it more difficult for fraudsters to steal filers' identities.

## IMPORTANT 2014 SECOND QUARTER FEDERAL TAX DEVELOPMENTS

**Tax Legislation.** Tax legislation continued to move forward in the House during the second quarter of 2014 but appeared to stall in the Senate. The House passed bills to make permanent the research tax credit, Code Sec. 179 enhanced small business expensing, and some tax incentives for S Corporations. However, the Obama administration expressed its opposition to the House bills because they were not offset and would add to the federal budget deficit. The Senate Finance Committee also considered a highway funding bill which included some pension-related tax provisions. President Obama signaled his support for the highway bill and for paying for highway funding by closing unspecified corporate loopholes. **Taxpayer rights.** In June the IRS adopted a Taxpayer Bill of Rights. The IRS also updated Publication 1, *Your Rights as a Taxpayer*, to reflect the newly-adopted Taxpayer Bill of Rights. Both steps were taken to educate taxpayers about their rights before the agency, such as the right to confidentiality. **IRAs.** In a unanimous decision, the U.S. Supreme Court held in June

that funds from an inherited IRA are not "retirement funds" exempt from the debtor's bankruptcy estate. The decision resolves a split among the Circuits. In 2012, the Fifth Circuit found that inherited IRAs are retirement funds protected from the reach of creditors. The Seventh Circuit reached the opposite conclusion in 2013. **Individual Taxation.** The IRS reported in June that the number of returns paying alternative minimum tax (AMT) more than tripled from 1.1 million to 4.2 million for 2011, the most recent year for which statistics are available. Individual taxpayers filed 145.4 million tax returns in 2011. Adjusted gross income on taxable returns increased 6.2 percent to \$7.69 trillion, while total income tax increased 9.9 percent to \$1.05 trillion. The IRS also reported that taxpayers used \$73.6 billion of tax credits in 2011. This represented a decrease of 35.2 percent from the \$113.6 billion of credits claimed in 2010, due to the expiration of the Making Work Pay Credit, the IRS explained.

Continued on Page 2

**Research Tax Credit.** Final and temporary regulations issued in June make the election to compute the Code Sec. 41 research tax credit using the alternative simplified credit (ASC) more taxpayer-friendly. The IRS announced that taxpayers may elect the ASC on amended returns in cases where no credit had been claimed in those respective tax years.

**Retirement Plans.** The IRS issued guidance on the application of *E.S. Windsor, SCt.*, June 20, 2013, which struck down Section 3 of the Defense of Marriage Act (DOMA), to qualified retirement plans. The IRS did not require retroactive recognition of same-sex marriages before June 26, 2013. The IRS provided guidance to safe harbor 401(k) and 401(m) plans on plan amendments reflecting the U.S. Supreme Court's decision in *Windsor*. A mid-year plan amendment to comply with *Windsor* will not affect a plan's safe harbor status, the IRS explained. Generally, safe harbor 401(k) plans must remain in effect for an entire 12-month plan period and cannot be amended mid-year subject to some exceptions. **Health Savings Accounts.** The IRS announced in May the annual inflation adjustments for limits on deductible contributions to health savings

accounts (HSA's) for the 2015 calendar year. The IRS also included the inflation adjusted limits on annual deductibles for purposes of defining a high-deductible health plan. The 2015 annual limitation on deductible contributions for an individual with self-only coverage is \$3,350, up from \$3,300 for 2014. For an individual with family coverage for 2015, the annual limitation is \$6,650, up from \$6,550 for 2014. **Affordable Care Act.** Final regulations issued in May describe how a Health Insurance Marketplace created by the Patient Protection and Affordable Care Act will report information about the Code Sec. 36b premium assistance tax credit to the IRS. Individuals who obtain health insurance through the marketplace may be eligible to offset the cost of coverage with the Code Sec. 36B credit. In June, the IRS clarified that one month is the maximum allowed length of any employment orientation period under the Patient Protection and Affordable Care Act's 90-day waiting period limitation for coverage. The one-month maximum is intended to prevent abuse, the agencies explained. The final regulations generally apply to group health plans and health insurance issuers for plan years beginning on or after January 1, 2015.

## Curbing Fraudulent Refunds

The Senate's top two taxwriters, Ron Wyden (D-OR) and Orrin Hatch (R-UT), want to make it more difficult for fraudsters to steal filers' identities and get refunds. The proposals include: (1) Taxpayers could request a special filing password to use before they file. That way if a return comes in with the filer's tax ID number but without the password, the IRS could flag the return and stop any refund. (2) Identity theft victims would be assigned an IRS employee to track their case. (3) Employers would have to file W-2s and 1099-MISCs with the feds sooner. The current February 28th deadline would be moved up to February 15th to allow faster matching. However the January 31 due date for sending the employee's copy would not be affected. (4) Only the last four digits of Social Security numbers would be put on W-2s for employees. The entire number would still have to be listed on the version the IRS receives. (5) Return preparers would face additional burdens. All returns would have to be e-filed, unless they show a hardship such as lack of internet access. Preparers of returns with the earned

income credit would have to verify the identity of the filer. Many fraudulent returns take this credit because it is fully refundable. (6) Refund theft would be treated as a felony, upping the ante for thieves.

Also, the IRS will place new limits on the number of refunds that can be electronically deposited (direct deposited) into a single financial account. The limit of three refunds to one account will take effect in January, 2015. Any subsequent refund will automatically be converted to a paper check and mailed to the address on the tax return. IRS Commissioner John Koskinen stated, "Direct deposit is an easy way for an identity thief to quickly divert funds to a bank account and cash out, and we want to put a stop to that".

