June. 2016

HUDSON POPE PLLC

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Summer, 2016

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, 2016 while individual income tax returns have an extension date of October 17, 2016. 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 1st 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.

REMINDER:

Individual Estimated Income Tax Payments are due by June 15, 2016.

Now that April 15th has come and gone, we are sharing some key updates post-filing season that will impact taxpayers. We will also explore some reactions to the new overtime rules recently enacted by the US Department of Labor.

2016 Post-Filing Season Update

The end of the 2016 filing season finds many tax practitioners needing to catch up on a long list of new developments that have taken place since January 1, 2016.

Affordable Care Act. Small employers with no more than 25 full-time equivalent employees may qualify for a special tax credit to help offset the cost of health insurance for their employees. The employer must pay average annual wages of no more than $50,000 per employee (indexed for inflation) and maintain a qualifying health care insurance arrangement. In March, a House committee reported that the number of small employers taking advantage of the credit is far behind expectations. ***Small Businesses***. Many small employers continue to wait for guidance about the application of market reforms under the ACA to health premium payment plans. Transition relief expired in 2015. ***Student health coverage arrangements***. The IRS announced transition relief regarding market reforms under the ACA to student health coverage arrangements in February. Schools will not be penalized if the arrangement is offered in connection with other student health coverage (insured or self-insured) for a plan year or policy year beginning before January 1, 2017.

Individuals. Interest rates. The IRS announced that the over and underpayment interest rates for the second quarter of the calendar year, beginning April 1, 2016 will rise by one percentage point, the first increase since third quarter 2011. The new rates are: 4 percent for overpayments, other than corporations; 3 percent for overpayments by corporations (except 1.5 percent of the portion of a corporate overpayment exceeding $10,000); 4 percent for underpayments (except large corporation); and 6 percent for large corporation underpayments.

Offers in Compromise. An offer in compromise (OIC) is an agreement between the taxpayer and the agency that settles a tax debt for less than the full amount owed. The IRS posted in March the 2016 version of the Form 656 Booklet, Offer in Compromise, describing how to apply for an offer-in-compromise and what criteria are used to measure acceptance of any OIC.

Collection financial standards. Collection financial standards are used to help determine a taxpayer's ability to pay a delinquent tax liability, beyond which the IRS must accommodate collection alternatives to direct and immediate collection. The IRS posted updated collection financial standards on its website in March.

Tax basis from estates. The Surface Transportation and Veterans Health Care Act of 2015 created the new requirement to prevent heirs from benefitting from a low estate tax value while claiming a higher value from what was received for purposes of selling the inherited asset years later. After several postponements and final regulations in March, the IRS announced that the due date for estates to furnish statements on the value of estate property to the IRS and to estate tax beneficiaries is now June 30, 2016. The extension applies to estate tax returns filed after July 31, 2015.

TAX ADMINISTRATION. *Delivery services*. The IRS updated in April its list of designated private delivery services that taxpayers may use to submit documents to the agency to qualify for the "timely-filed, timely-mailed" rule. The IRS added eight new delivery services.

Payment options. The IRS announced in April a new payment option for individuals who pay their income taxes in cash. The IRS has partnered with ACI Worldwide's Officialpayments.com and PayNearME Company to allow individual to make cash payments at participating 7-Eleven stores.

IRS Future State. The IRS is developing a blueprint for the future, known as the Future State Initiative. The plan is expected to help the agency adapt to the changing needs of taxpayers and the tax community. As part of this plan the IRS wants to create secure individual online accounts through which taxpayers could obtain information and communicate with the IRS, including responding to notices, providing documentation and filing amended returns.

Effects of New Overtime-Pay Rules

Thanks to the Fair Labor Standards Act of 1938 (FLSA), salaried workers are guaranteed overtime pay at time and a half for any hours they work beyond the standard 40-hour workweek, with exceptions to the rule based on both the duties involved and salary level. Exemptions exist for executives, professionals, administrative employees, outside consultants, and a few other classes of salaried employees. A new regulation finalized in May by the Labor Department, will make 4.2 million employees newly eligible for overtime pay when they work more than 40 hours a week, and will clarify that millions more have already been eligible but have not been getting the pay to which they are legally entitled.

When the rule takes effect in December of 2016, the threshold under which salaried workers will automatically qualify for overtime pay will double to $47,476 a year, from the present $23,660. Workers who are paid hourly are generally eligible for overtime pay, regardless of their annual earnings. The Department of Labor originally proposed a threshold of $50,440 annually but the new rule reached a compromise based on the 40th percentile of income for salaried full-time workers in the region of the US with the lowest wages (currently the South). Further inflation adjustments will be made every three years thereafter using the same 40th percentile criteria. Lower wage businesses and service Industries like hospitality and retail are understandably against the new rule. A press release from the National Retail Federation (NRF) declared the new overtime rules to be a "career killer". NRF contends that instead of increasing salaries to raise workers above the overtime threshold, many businesses will simply reclassify professionals as hourly workers, removing their existing perks, flexibility and certain benefits. NRF sponsored research from Oxford Economics concludes that the new rules will leave most workers without an increase in take-home pay due to limited hours or other pay adjustments to deal with the increases in payroll costs – for example, paying the necessary overtime but cutting base salaries to compensate. Administrative expenses such as the added costs of tracking hours for more employees and updating of payroll systems were estimated to cost businesses $745 million.

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