

ENDERLE & COMPANY^{PLLC}

CERTIFIED PUBLIC ACCOUNTANTS

190 Market Street • Lexington KY 40507 • www.enderlecpa.com • 859-254-4427

We hope you had a wonderful holiday season. We never really take our eye off the ball, but now we turn our full attention to the tax filing season. Congress took it easy on us in 2014, with no action on comprehensive tax legislation, and a last-minute retroactive tax extender bill that was just passed a few weeks ago.

We sincerely appreciate the trust you place in us to be your accountants. -Mark Enderle

We will be sending out tax “organizers” in the next couple of days, so be looking for that package. If you would rather get yours via email, just call in and we’ll take care of that.

If you would like some one-on-one assistance with gathering your tax information, we are more than happy to send one of our tax staff out to your home or business to assist; just let us know. And if you have questions while gathering your materials, please call us.

***Special note for our small business clients – let’s start on the business part of your tax returns now, while we are waiting on the personal tax materials to arrive in February. Don’t think that you have to wait until you have 100% of your tax information in hand before we can get started. Early is better!

PERSONAL TAX UPDATES

Not a lot has changed from 2013. There have been some changes associated with the Affordable Care Act that may or may not affect your 2014 filing. There has certainly been a lot of press on this subject over the last couple of years. In general, if you didn’t have minimum essential health care coverage in 2014, you may have to pay either \$95 per person (\$47.50 for a child under 18) limited to a family maximum of \$285 or 1% of your yearly household income that’s above a certain filing threshold. For example, a single person that earns \$60,000 for 2014, who does not have qualifying coverage, will owe a penalty of \$498.50. These penalties will rise in 2015. Timing will be critical for uninsured people who want to avoid the rising penalties for 2015. That’s because Feb. 15 is the last day of open enrollment under the health law. After that, only people with special circumstances can sign up.

ALTERNATIVE MINIMUM TAX (AMT)

Many of us are familiar with the AMT (one never forgets once they have to pay it). The AMT is a separate tax calculation that is aimed at ensuring higher-income taxpayers pay a minimum amount of tax. However, it increasingly affects middle-income taxpayers. And you may be surprised at some of the triggers that subject you to the AMT. These triggers generally include items that can provide you with substantial deductions, such as:

- paying high state or local taxes;
- spending home equity line dollars on something other than a home improvement; or
- having large amounts of miscellaneous itemized deductions.

There are several ways to plan for the AMT; for example, you can lower taxable income through retirement account contributions or by managing the capital gains or dividends you receive.

FOREIGN FINANCIAL ACCOUNTS

Did you have foreign accounts with an aggregate value higher than \$10,000 at any time during the calendar year? U.S. taxpayers (including individuals and business entities) are required to report on foreign assets or investments they hold in offshore accounts. Under the Bank Secrecy Act, you may be required to file what is known as the FBAR directly with the Financial Crimes Enforcement Network (FinCEN), a bureau of the Treasury Department. Given the diversity of assets that many people hold, we advise against assuming that the FBAR rules don’t apply to you. If you’re not sure, we can help you determine the answers.

CHARITABLE CONTRIBUTIONS

Many people make donations to charities whose work they support, but if you are planning to take a tax deduction for your gift, you must have the proper paperwork. Assembling the right documentation can also be tricky because the requirements vary based on whether the donation is cash and on the value of your gift. If you donate less than \$250 in cash, for example, a canceled check, credit card statement or similar record may be sufficient, but if you give more, you will need a written acknowledgement from the charity. An additional tax form—and possibly an appraisal—may be needed for non-cash donations, depending on their value. Save those slips of paper that Goodwill, etc. hands you when you drop off donations! We’re not on the honor system with the IRS. Of course, the organization itself must also qualify as a charity under IRS rules; we have had quite a few instances of clients donating to organizations that appear to be qualified charities when they’re not.

If you receive a Form 1095-A, the Health Insurance Marketplace reporting form, please make sure we get a copy. You should receive one if you got your coverage through the health insurance marketplace.

RETIREMENT PLAN OPPORTUNITIES

We urge you to take full advantage of your retirement contribution options for the possible tax benefits now and the income security later. For 2014, you can contribute up to a total of \$5,500 (\$6,500 if you’re 50 or older) to a traditional or Roth IRA (but there are income limits... call us before making contributions). Contributions to a traditional IRA may be tax-deductible, depending on your income and on whether you’re covered by an employer’s retirement plan. There are also income limits for contributing to a Roth IRA. We calculate these limits when we prepare your tax returns.

BUSINESS TAX UPDATES

We stay in close contact with our business clients, who also are good at contacting us when they have a question. This is the kind of communication that results in the best tax result for you. We've fielded lots of questions on the Section 179 "expensing" election for equipment (and other fixed asset) purchases, and yes, it was finally extended just a few weeks ago, until the end of 2014 (that's right, the provision has now expired *again*).

For certain businesses, Section 179 is a very important part of their decision to purchase fixed assets, and the fact that this important provision was not officially implemented until late December, retroactive for the whole year of 2014, made such decisions a gamble at best. The popular 50% bonus depreciation deduction was also scheduled to go away entirely for 2014, but was also extended a few weeks ago, and has now expired again for 2015. Makes planning tough, no?

If you would like some one-on-one assistance with gathering your tax information, we are happy to send one of our tax staff out to your home or office to assist. Call us at (859)254-4427 to set up a time.

THE NEW TANGIBLE PROPERTY REGULATIONS

Complicated IRS regulations on tangible property can apply when considering expensing repairs, maintenance and improvements, materials and supplies, and acquisitions. The most complex parts of these regulations apply to real estate repairs, remodeling, and casualties. Altered treatment of some expenses may require a complex application for an accounting method change on multiple Forms 3115. We have many materials on these new rules, in effect as of the beginning of 2014, to assist you in making the right decisions. We can email you a summary of these rules – just give us a call and we will forward this to you.

THE IRS

OK, what a mess. It is not news that the IRS is understaffed, under-funded (per them), etc., etc. The IRS has a very robust "automated" notice-generating capability...the problem is getting a human at the IRS to address an issue when the notice is incorrect. It is typical for the IRS to delay responses to correspondence we send them. This situation will not get better. It was reported that last month the IRS moved 4,000 employees out of their regular positions into ACA (Affordable Care Act – aka Obamacare) compliance work.

We interact with the IRS (considered by many to be the largest bureaucracy on the planet) on a daily basis. Our clients are very good at getting us copies of any official correspondence they receive; we like to respond immediately to any official correspondence. No one likes to be audited, but if your number comes up, we can represent you before the IRS, and make sure you get the best result possible. If you hear of someone needing help dealing with the IRS or any taxing authority, please refer them to us.



MILEAGE RATES UPDATED

Effective January 1, 2015, the standard mileage rates increased, and are as follows:

- Business use of auto: 57.5 cents per mile
- Charitable use of auto: 23 cents per mile

This is great news, especially with the current gas prices. Make sure you are keeping a good log of your business miles to preserve this valuable deduction. Estimates and gas receipts don't cut it. We can show you exactly how to keep a "perfect" mileage log. There are numerous phone apps out there for business mileage tracking (and other business expenses also). If you use one of these apps, we recommend that you keep a paper backup until you are comfortable that it works well.

If you prefer to receive your organizer via email, call us at (859)254-4427 and we will take care of it.

THE HOME OFFICE DEDUCTION

Many taxpayers are wary of taking the home office deduction as it has developed a reputation for being a "red flag" for an audit. We do not find this to be the case. While you need to be careful to understand and comply with the IRS rules for deductibility, this deduction can be a substantial tax savings vehicle for self-employment income if you are eligible and should not be overlooked. The safe-harbor method of calculating the deduction, introduced in 2013, is an optional easier way to figure the deduction without the record-keeping requirement of the total-expense method. We recommend the safe-harbor method, because of the record-keeping benefits and the fact that mortgage interest and property taxes allocable to the home office are still permitted as an itemized deduction for those who use it. However, the rules for determining what space qualifies as a home office still apply to both methods. We can discuss this with you anytime.

IMPORTANT DATES TO REMEMBER:

- January 31**
Have W-2s to your employees
- January 31**
Send most 1099s to Independent Contractors

RETIREMENT PLANS

Qualified retirement plans offer many tax benefits to both employers and employees. With traditional plans, employers get a tax deduction for contributions, and employees may be allowed to make pre-tax contributions and defer taxes on income until distribution. In Roth plans, employees do not get tax deductions for contributions, but qualified distributions and withdrawals are tax-free. In addition, assets held in qualified plans generally are protected from creditors of both employees and employers. However, these plans are heavily regulated and include different contribution limits and matching requirements. Plans may have nondiscrimination requirements and top-heavy rules, which require their own tax-filing obligations.

It's also important to consider whether your business will grow to include more employees when you select your plan. We can help guide you on deciding whether you should implement a retirement plan, or whether another type of retirement plan might be more appropriate for your business.

ARE YOU PREPARED FOR A BUSINESS INTERRUPTION?

Fires, floods, storms...these things do happen, and they serve as reminders that it's important for both individuals and businesses to protect themselves against the potential financial consequences of such events. A few smart steps we recommend include making electronic backups of important records, including your insurance policies, tax returns, bank and credit card account information, and vital records. It is critical that you store this backup in a separate location that will be easy to access if your electronic or paper records sustain damage. You should also take the time to take pictures or videos of your home or business and store them separately in case you need to make an insurance claim. If you run a business, you must consider how you will get up and running again after a disaster. It's a good idea to develop contingency plans that will enable employees to work from home or elsewhere if your location is damaged or inaccessible.

AFFORDABLE CARE ACT PROVISIONS

If you haven't begun addressing this provision and how it applies to you, it's certainly time to do so. We have come across provisions that affect even small businesses and the way they have been handling health insurance, so if you have not already done so, make sure to discuss your current policies with us.

If you provide your workers with health insurance, you do need to consider whether the Small Business Health Care Tax Credit, which can help offset the costs at companies with fewer than 25 Full Time Equivalent (FTE) workers. In 2014 and later years, the credit is 50% of premiums paid (35% for small tax-exempt employers) for any two consecutive taxable years. However, you can only receive the credit if you obtain your insurance through the government's Small Business Health Options Program (SHOP) Marketplace. In practice, we find that few companies actually meet the requirements to qualify for this credit, and now with the additional requirement that the insurance be purchased through the government marketplace, it will become even more cumbersome to qualify.

Small employers who offer Healthcare Reimbursement Arrangements (HRA) should be aware of new rules that came into play in 2014 that may pose challenges. Among other requirements, a plan must provide minimum essential health benefits without annual or lifetime dollar limits – and the penalties can be steep for companies that don't comply.

DO YOU NEED A COACH FOR YOUR NEW OR GROWING BUSINESS?
We help business owners start and expand their companies every day. We frequently serve as a business coach or mentor for owners seeking help in their strategic planning, setting up payroll or other systems or selecting the best accounting software, among other projects. Due to our extensive contacts in the community, we can also recommend attorneys and bankers to work with your business.



FLEXIBLE SPENDING ACCOUNTS

Reduced, but not dead yet. The ACA lowered the amounts we can contribute to such plans from \$5,000 to \$2,500 for 2014 and the future, but they are still very valuable in the right situations. Flexible spending accounts (FSA) can help you lower taxes by setting aside pretax dollars to cover medical bills. In the past, you may have been reluctant to contribute to FSAs because you risked losing money you didn't spend by year-end. You can now contribute up to \$2,500 to an FSA in any year, and new rules allow you to carry over as much as \$500 from one year to the next.

HOBBY LOSSES

This is the term the IRS assigns to small businesses that have too many losses for too many years. In general, the presumption is that a small business is started with an intent to make a profit, but if the worst happens, and the losses continue year after year, the IRS can assert that the business is really a hobby (in their view). If you have a small business that has thrown off a net taxable loss for the last couple of years, you should discuss this with us.



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Meet Our Professional Staff



Scott L. Romans, CPA, CFE - Tax Manager - A native of Mount Sterling, KY, Scott graduated from Transylvania University in May 2009 with a Bachelor of Arts degree with a focus on Accounting and joined Enderle & Company, PLLC in December 2009. Scott focuses on partnership and S-Corporation taxation, Forensic Accounting, and business consulting.



Jason C. Mitchell, CPA - Senior Auditor - A native of Frankfort, Kentucky, Jason graduated from the University of Kentucky with a Master of Science in Accountancy and joined Enderle & Company, PLLC in October of 2011. Jason specializes in audits, financial statement presentation, and not-for-profit taxation.



Elizabeth H. Besten, CPA - Senior Tax Advisor - Elizabeth graduated from the University of Kentucky in 2006 with a Master of Accountancy with an emphasis in taxation. Elizabeth specializes in individual and business taxation compliance and planning, and supervises much of the firm's bookkeeping work.



William D. Craycraft, CPA - Staff Accountant - Will is a Lexington native. He graduated from the University of Kentucky, with his Bachelor of Science in Accounting and his Master of Science in Accounting. Will's focus is on individual and S-Corporation taxation, Trusts & Estates, and IRS representation.



Greg S. Collins - Senior Accountant - Greg graduated from the University of Kentucky with his Bachelor of Science in Accounting and Master of Science in Accounting. Greg specializes in flow-through entity taxation, tax preparation for small businesses, and IRS representation. He also works with our Oil & Gas clients.



Amber A. Stone - Senior Accountant - Amber has been working with the firm since 2010. She graduated from the University of Kentucky with her Bachelor of Science in Accounting and her Master of Science in Accounting. Amber works primarily with individual, S-Corporation, and partnership taxation. Amber is currently working on attaining her CPA certificate.



Thom E. Pavlik— Staff Accountant— Thom began his professional career in advertising before returning to school and earning his degree in accounting. He began working with the firm in the summer of 2012. Thom has passed all parts of the CPA exam, and is waiting on final approval by the State Board of Accountancy to award his CPA designation. Congratulations to Thom!

Enderle & Company Professional Staff (continued)



Kathleen T. Soukup - Kathleen has worked with the firm for several years. Her specialty is business analysis for many of our clients. She is an accounting software expert. Kathleen has a Bachelor in Accounting from Siena Heights University in Michigan. She is a veteran of the United States Army, and is an active member and volunteer at Beaumont Presbyterian Church.



Teri L. Browning - Teri is originally from Middlesboro, Kentucky. She has been with the firm since 1991. She provides several professional services for our clients, including bookkeeping, accounts receivable, accounts payable, and payroll.



Bridget A. Cerny - Bridget recently joined our firm after relocating from California. She is an Individual tax specialist. She received her education in England and Zimbabwe. You will love talking to Bridget—great stories, lovely accent.

Enderle & Company Partners



Mark G. Enderle, CPA - Partner - Graduated from Miami University in 1989 with a Master of Accountancy (taxation), and from Ohio University in 1988 with a Bachelor of Business Administration in Accounting. He has extensive experience in the taxation and management of business entities, including LLC's, S-Corporations, and partnerships. Mark regularly consults with business owners on optimal business structure and succession issues. Mark holds a CFF (Certified in Financial Forensics) certificate.



Christopher B. Besten, CPA - Partner - Native of Lexington, KY where he attended Lexington Catholic High School and then the University of Kentucky. Chris graduated from UK in December of 2005 with a BS in Accounting and a BBA in Management, and was also a member of the business fraternity Alpha Kappa Psi. He was a founding member of the Rotary affiliate Rotaract Club of Lexington. Chris specializes in topics pertaining to individual income taxation, LLC's, S-Corporations, and forensic accounting.



Andrew H. Dieruf, CPA, CFE - Partner - Andrew Dieruf came to us a few years ago from PriceWaterhouse-Coopers' Cincinnati office, where he worked on the audits of SEC clients. Andrew is a CPA and has a designation as a Certified Fraud Examiner. He is a graduate of Transylvania University, with a Bachelor in Accounting. Andrew is our Director of Audit Services.