TAX NEWS YOU NEED TO KNOW

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August 2018

Soon, the warm evenings will turn cooler and school will be back in session. The end of summer means the 2017 extended return filing season begins. The due dates for individual, business and trust returns are approaching rapidly.

Calendar year partnerships and S Corporation returns are due on September 15, 2017. Trust and estate returns have until September 30 to file while individuals and calendar year corporations have until October 15. Exempt organizations are due November 15.

Enjoy the last days of summer and remember that back to school also means back to (tax) business. If your returns in are not in process please contact us to schedule an appointment.

If you have additional questions about the information in this newsletter, **contact us.** We appreciate you forwarding this newsletter to associates and friends who would benefit from the monthly news we provide and are looking for tax preparation and planning resources from a CPA firm.

Regards,
Rebecca Luers, CPA and Jan Dyer, CPA

Student Loan Forgiveness Creates New Tax Trap

There's a new student loan repayment program that forgives some student loan debt if other payments are made. This new debt forgiveness is creating a tax surprise for the unsuspecting student. Here is what you need to know.

The debt forgiveness program dilemma

To combat the hardship of high student loan debt, a popular new repayment option is the income-based repayment plan. These plans limit monthly payment amounts to a percentage of discretionary income. They also limit the number of repayment years. If your loan is not paid by a pre-determined future date and you've been making the payments as agreed, the balance of the loan is forgiven.

While the prospect of having a portion of the debt canceled is enticing, it can create an unexpected tax burden if you are not prepared. Here's why it may be a problem:

- Canceled debt is considered taxable income. When a portion of a loan is forgiven, that amount is considered taxable income in the year in which the debt is canceled. While there are exceptions, this is the general tax rule.
- A 1099-C is issued to you and the IRS. Upon the forgiveness of the student loan debt, the loan servicing company will issue a Form 1099-C titled "Cancellation of Debt". A copy of the form will be delivered to both you and the IRS informing both parties of the amount of forgiven debt. This amount needs to be included on your Form 1040.
- Taxes are due at filing. The entire amount will likely be taxed at the taxpayer's highest marginal tax rate. This amount is due in its entirety at the annual tax-

filing deadline. If a large amount is due, there may also be additional underpayment fees tacked on by the IRS.

Some exceptions apply

Before you begin to worry about a surprise tax bill, consider your other options:

- Tax-exempt debt forgiveness programs: There are a few programs that consider the student loan canceled debt tax-exempt. The two most common are for students that become public service employees and teachers. So when you have canceled debt, conduct a review to see if your employment complies with the possible tax exclusion.
- Insolvency exclusion: The IRS provides a way to exclude a forgiven debt from taxable income if you can prove you are financially insolvent. The IRS defines "insolvency" as when a taxpayer's total liabilities exceed his or her total assets. To claim this exclusion, an additional form is filed with your tax return. Make sure you can back up any claims you make, because the IRS may request to see proof.
- IRS repayment plan: If you have a balance due as a result of the canceled debt and cannot pay it in full by the deadline, the IRS has payment plans available. There will be additional penalties, interest and possibly setup fees that will be added to the amount due. This is not a great option, but it is better than not paying the balance at all.

Even with the additional tax liability that is realized, debt relief is generally a good deal for most. The hardship comes if you are not prepared for how to handle the tax payment that becomes due. Before signing an agreement that relieves debt, it makes sense to review your situation to avoid any surprises on your tax bill.

Contact us for more information.

Dramatic Sales Tax Change

The U.S. Supreme Court issued a ruling in the South Dakota vs Wayfair case that opens the door for states to impose sales tax on sellers outside their borders. The case highlights a new standard of business presence called "economic nexus" that may have major implications for businesses and consumers alike.

Economic nexus explained

The exact definition varies, but in general, economic nexus makes a connection between a taxing authority (usually a state) and a seller based on certain sales or transaction levels. The Supreme Court agrees with South Dakota that having economic presence is enough to require an out-of-state retailer to register with the state to collect and remit sales tax. For example, the state of South Dakota mandates that if a retailer has $100,000 in annual in-state sales or has 200 separate in-state sales transactions over the previous 12 months, they must collect sales tax on all sales in South Dakota.

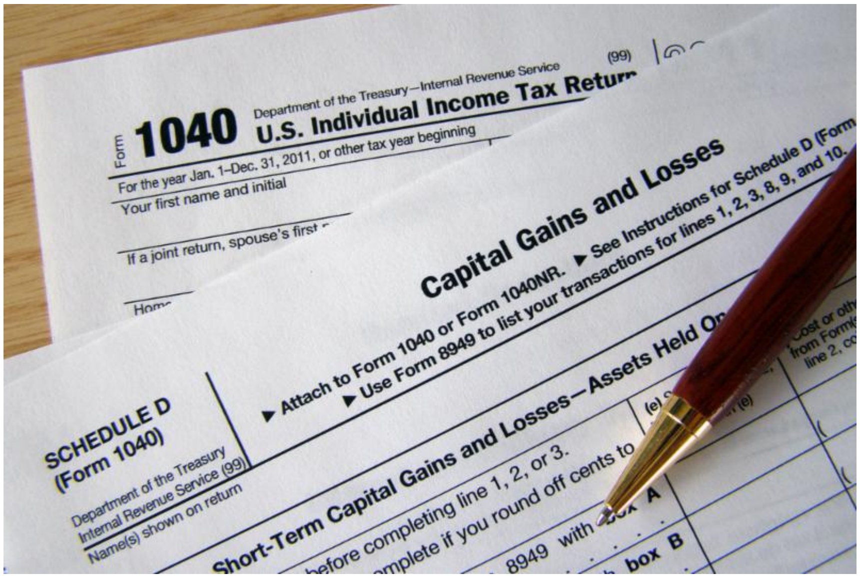
What it means for businesses

- **New, lower threshold for tax exposure:** Sales tax nexus was mostly determined by physical presence. If a business has an office or employee located in a state, they likely were required to collect tax on sales in that state. The economic nexus standard removes the physical presence requirement with this ruling. Businesses now may need to compare sales-by-state data to the individual state economic nexus laws to determine whether they have a sales tax obligation in that state.
- **More tax registrations & filings:** Businesses that sell outside their state may need to register in many more states - maybe all 50. With more registrations come more compliance management and more sales tax returns that need to be filed on an ongoing basis. The impact on workload for sales tax staffs could be huge.
- **Increased audit potential:** With each new state registration comes a new potential audit authority. Sales tax audits almost always bring in additional revenue for states, so they will be looking to capitalize on the increased registrations. Sales tax compliance management is more important than ever and could lead to state income tax changes.

What's next?

As many as 16 states have economic nexus laws in place to try to take advantage of the new ruling, with many more to introduce legislation. By nature, Internet retailers will be hit the hardest and are expected to lobby in states that have not passed economic nexus laws. In addition, it will take states some time to get their systems updated to handle the new laws and increased filings. While there might be some short-term delays during implementation, sales tax changes appear to be on their way.

Contact us for more information.



Manage Capital Gains Tax Tips

If not tracked and managed properly, capital gains tax can come as a large surprise at tax-filing time. In fact, many taxpayers don't realize they have a capital gain until they get their 1099 form in January and see a capital gain distribution. Here's what you need to know.

Understand capital gains and their taxability

Capital gains are recognized when you sell a capital asset for more than your basis in that asset. Capital assets are typically something of value like your home, a car and other investments. Basis is typically the original cost of the asset being sold. The difference between the sales price of the asset and your basis is the amount of the taxable capital gain.

The IRS taxes short-term capital gains for assets owned less than one year as ordinary income up to 37 percent, but taxes long-term capital gains at a maximum 23.8 percent (20 percent plus a potential 3.8 percent net investment tax).

Ways to manage capital gains tax

- **Hold investments for more than one year.** Long-term gains (assets sold more than a year after acquisition) are taxed at the lower capital gains rate. If you are able to hold assets for more than a year, you will save tax dollars by avoiding the gain being classified as ordinary income.
- **Sell large gains in low-income years.** If you expect lower income this year, it might be a good time to sell some of your capital gain investments. Since the capital gains tax brackets follow the marginal income tax brackets, if you are in a lower income tax bracket in a given year you may pay a lower capital gains tax. You can take advantage of this with both long-term and short-term gains.
- **Harvest large losses in high-income years.** If you have a high-income year you

can save taxes by selling investments that have lost money. Capital losses help reduce your capital gains with the tax liability calculated on the net amount. Be aware of IRS netting rules that require you to net long-term losses with long-term gains and short-term losses with short-term gains. If one results in a net loss and the other a net gain, they are then netted against each other. If the final amount results in a net loss, the most you can deduct against ordinary income in one year is $3,000. The excess losses must then be carried forward to future tax years.

- **Gift your investments to your kids.** You are allowed to gift up to $15,000 per year to each of your kids ($30,000 per married couple). If you gift appreciated investments to a child under 19 and they then sell that investment, each child can receive favorable tax treatment on up to $2,100 from their taxes. Be careful if you go over the annual exemption. Higher levels of unearned income for children, including capital gains, is now subject to estate and trust tax rates.
- **Consider donating property.** If you donate appreciated property to a qualified charity you can deduct the donation as an itemized deduction. Even better, if the property is owned by you for more than one year, you can deduct the current market value without being subject to capital gain tax.
- **Sale of primary residence exclusion.** If you sell your home, you may qualify to exclude $250,000 of the gain from capital gains tax ($500,000 if married filing jointly). In order to qualify, you need to own the home and have occupied the home as your primary residence for at least two of the previous five years. The two years do not need to be simultaneous.

There are many factors that come into play when buying or selling an asset. Just make sure the tax implications are considered before you make the transaction.

Contact us to get help with an amendment or if you have other tax questions.