

1Q/2015 TAX DEVELOPMENTS WHICH MAY AFFECT A TAX SITUATION

The following is a summary of the most important tax developments which have occurred in the past three months that may affect you, your family, your investments and your livelihood.

- 2015 luxury auto depreciation dollar limits and lease income add-backs released.

Annual depreciation and expensing deductions for so-called luxury autos are limited to specific dollar amounts. These amounts are inflation-adjusted each year. The IRS has announced that for autos (not trucks or vans) first placed in service during 2015, the dollar limit for the first year an auto is in service is \$3,160; for the second tax year, \$5,100; for the third tax year, \$3,050; and for each succeeding year, \$1,875. The dollar limits are the same as those which applied for autos first placed in service in 2014.

For light trucks or vans (passenger autos built on a truck chassis, including minivan and sport-utility vehicles (SUVs) built on a truck chassis) first placed in service during 2015, the dollar limit for the first year the vehicle is in service is \$3,460; for the second tax year, \$5,600; for the third tax year, \$3,350; and for each succeeding year, \$1,975. For a light truck or van placed in service in 2015, the dollar figure for the second tax year is \$100 higher than the figure that applied for such vehicles first placed in service in 2014. For all other years, the 2015 limit is the same as the 2014 limit.

A taxpayer that leases a business auto may deduct the part of the lease payment representing its business/investment use. If business/investment use is 100%, the full lease cost is deductible. So that auto lessees can't avoid the effect of the luxury auto limits, however, taxpayers must include a certain amount in income during each year of the lease to partially offset the lease deduction. The amount varies with the initial fair market value of the leased auto and the year of the lease, and is adjusted for inflation each year. The IRS has released a new inclusion amount table for autos first leased during 2015. The amounts in the new table are higher than the figures in the table which applied to autos first leased in 2014.

- Cents-per-mile valuation of personal use.

An employee's personal use of an employer-provided auto must be treated as fringe benefit income and valued using one of several methods. One of the acceptable methods allows employers to value personal use at the mileage allowance rate (57.5¢ per mile for 2015). However, the cents-per-mile method may be used only if the auto's fair market value does not exceed \$12,800, as adjusted for inflation. The IRS has announced that the inflation-adjusted figures for vehicles first made available to employees for personal use in 2015 are \$16,000 for autos (same as for

2014) and \$17,500 (up from \$17,300 for 2014) for trucks and vans - i.e., passenger autos built on a truck chassis, including minivans and SUVs built on a truck chassis.

- IRS eases process for small businesses to adopt tangible property regulations.

The IRS created a number of special procedures which will allow small businesses (under \$10 million of assets or \$10 million or less of gross receipts) to more easily adopt final tangible property regulations. These procedures generally involve limiting the changes in accounting needed to adopt the regulations, to amounts paid or incurred, and dispositions, in tax years beginning on or after January 1, 2014. The special procedures also shed light on the regulations' de minimis safe harbor election, a useful and widely applicable break which allows many businesses to dispense with capitalizing and depreciating (or expensing) purchases of many lower-cost assets (e.g., furniture, equipment, computers) needed to run a business.

- Proposed regulations OK research credit for some software developed for internal use.

A tax credit is available to taxpayers who conduct qualified research, but research into computer software which is developed by (or for the benefit of) the taxpayer primarily for its internal use is generally ineligible for the credit. However, under an exception in recently issued proposed regulations, certain internal use software is eligible for the research credit if the software satisfies a "high threshold of innovation" test. Under this test, internal use software would be qualified research if it is innovative, the software development involves significant economic risk, and the software is not commercially available for use by the taxpayer.

- Transition relief allows employers to claim retroactively extended work opportunity tax credit.

The work opportunity tax credit (WOTC) allows employers who hire members of certain targeted groups (such as qualifying veterans) to get a credit against income tax equal to a percentage of first-year wages (and second-year wages as well, for some eligible hires). The credit depends on which targeted group the eligible hire belongs in. An individual isn't treated as a member of a targeted group unless: (1) on or before the day he begins work, the employer obtains certification from the state that the individual is a member of the targeted group; or (2) the employer completes a pre-screening notice (Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit) on or before the day the individual is offered employment and submits the notice to the state to request certification not later than 28 days after the individual begins work.

The WOTC was to have expired for eligible employees who began work after 2013, but a tax law change enacted late last year extended the WOTC retroactively for 2014 for members of targeted groups. The IRS realized employers needed additional time to comply with the technical requirements of this credit. Accordingly, the IRS said eligible employers who hired a member of a targeted group on or after January 1, 2014, and before January 1, 2015, will be considered to have satisfied the certification requirements if they submit the completed Form 8850 to request

certification to the appropriate state agency not later than April 30, 2015.

■ Relief provisions from ACA's health coverage provisions.

The IRS released the following relief measures related to the Affordable Care Act's (ACA's) rules which require individuals to carry adequate health insurance or pay a penalty and give eligible individuals a credit to help them pay for premiums.

- *Special open enrollment for taxpayers paying fee for not having health coverage.* Americans who do not qualify for an exemption and went without health coverage in 2014 have to pay a fee when they file their taxes in 2015. Those who were unaware, or didn't understand the implications of the fee for not enrolling in coverage, were provided with an opportunity to buy health insurance coverage from March 15 to April 30 of this year. Taxpayers who do not buy coverage for 2015 during this special enrollment period may have to pay a fee when they file their 2015 income taxes. Those taking advantage of this special enrollment period will still owe a fee for the months they were uninsured and did not receive an exemption in 2014 and 2015. Those eligible for this special enrollment period live in states with a Federally-facilitated Marketplace and are not enrolled in coverage through the Federally-facilitated Marketplaces (FFM) for 2015. In addition, they attest that, when they filed their 2014 tax return, they paid the fee for not having health coverage in 2014 and attest they first became aware of, or understood the implications of, the responsibility to pay the fee after the end of open enrollment (February 15, 2015) in connection with preparing their 2014 taxes.
- *Relief where late payment, estimated tax penalties arise from advance premium credit payments.* Taxpayers with moderate or low incomes who got health insurance coverage through the Health Insurance Marketplace may be eligible for a premium tax credit which reduces the cost of buying health insurance. Eligible individuals can choose to have the credit paid in advance to their insurance company to lower what they pay for their monthly premiums, and then reconcile the amount paid in advance with the actual credit computed when they file their tax return. The amount of the credit they are eligible to claim on the return is based on actual household income and family size for the year as reflected on the tax return. If the advance credit payment was less than the actual premium tax credit, the difference is a higher refund or lower tax due. If the advance credit payment made to a health care provider was more than the actual credit, the taxpayer may need to pay the difference with his or her tax return. Normally, taxpayers may owe certain penalties for late payments or underpayment of estimated tax. However, to help smooth the process for the first year of the ACA, the IRS announced it will waive these penalties for the 2014 tax year for eligible taxpayers if they resulted from repayment of excess advance payments of the premium tax credit for Marketplace coverage.
- *Taxpayers who filed using erroneous premium credit data may, but don't have to, refile.* The new Form 1095-A, Health Insurance Marketplace Statement, is furnished to individuals to allow them to reconcile the premium credit they are actually entitled to with advance payments of the premium tax credit and then report any difference between those two amounts on their tax return. In March, the government announced a number of taxpayers received a Form 1095-A with

incorrect data. And, the IRS announced persons who received an incorrect Form 1095-A, and had already filed their 2014 tax return, did not need to file amended returns. The IRS said it would not pursue the collection of any additional taxes from these individuals based on updated information in the corrected forms. Nonetheless, the IRS advised that individuals may be better off filing amended returns (that is, when the corrected Form 1095-A results in a lowered tax bill).

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