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Resource Report

February 2015 • www.gallina.com

Greetings!

Tax Season - here we come! We here at GALLINA are ramping up and are already in the full swing of things. With the implementation of a slew of new laws, including the filing of Form 3115 to change Accounting Method due to the Tangible Property Regulations for many businesses, we are hard at work early on in the season!

Are you ready to file your taxes or will you need a little more time this year? Either way - we're here to help! Whether it be your 1120, 1040, or an extension, your GALLINA team is ready and waiting!

All information contained in our newsletters can always be found and downloaded from the GALLINA website under the Newsroom and Resources links.

Alerts, Updates and Changes:

Affordable Care Act Compliance- Large Penalties for Employer Health Premium Reimbursement Plans

As of January 1, 2014 employers may no longer reimburse employees for health insurance premiums, if they have more than one employee. This includes premium reimbursements through HRAs, health FSAs and employee payment plans where employers reimburse or pay directly premiums for health care coverage that the employee purchases. Plans such as these are not in compliance with the Affordable Care Act market reforms and the employer may face an excise tax of $100 per day per employee, a potential penalty of $36,500 per year per employee.

The reason behind this rule change is the Affordable Care Act (ACA) contains market reforms that apply to group health insurance plans. Once an employer reimburses its employees for health insurance premiums those reimbursements are considered a "group plan" and they are subject to the ACA market reforms.

The ACA market reforms are complex; however there are two reasons why HRAs, FSAs and employer purchase plans (EPP) are not in compliance. The first

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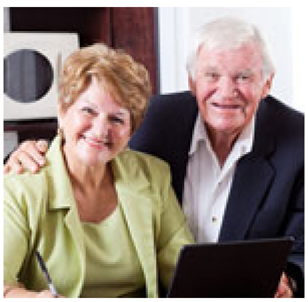
Be Sure to Deduct All of the Mileage

is that a group plan may not establish an annual limit on benefits for any individual. The second is that a group plan must provide certain preventative services without requiring any cost-sharing requirements. Unfortunately, because of the way HRAs, FSAs and EPPs work, they are not able to comply with these two requirements.

HRAs that are integrated into a group health plan may still provide for limited scope dental and vision reimbursements. However, it is important to remember they cannot provide for the payment of medical expenses or premiums.
It is recommended that all employers review their current health care arrangements carefully to ensure they are in compliance with the ACA market reforms. Employers should discontinue any health insurance premium reimbursements and contact their tax advisor regarding tax compliance and reporting for 2014.

Charity Holst, CPA
GALLINA LLP - Roseville, CA



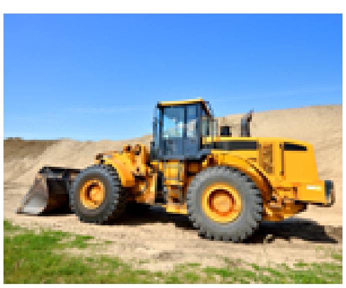
Grandparents to Grandchildren Gift Program

Did you know you can save 40 cents on the dollar by making gifts before your death, eliminating those assets from your estate, if you are subject to estate tax? Payments of tuition or medical expenses are allowable gifts over and above your annual exclusion when made directly to any educational institution or a licensed medical provider. For example, if your child or grandchild wants to go to a specialty school and you pay $10,000 in tuition, that payment is not considered a "gift" for gift tax purposes. Therefore, in the same year you could also give that grandchild another gift, say $14,000 in a 529 Plan, and that gift would fully qualify for the annual exclusion.

Under a Gift Program, tuition is not subject to any gift scrutiny as long as it is paid directly to the school. These payments benefit society as a whole and Congress allows this exclusion. This can be done in a variety of ways at any level: braces or other expensive dental work; specialty summer programs; preschool tuition; post-secondary schools...the list goes on. This Gift Program would be for grandparents, or the gifts could be delegated to a parent from the grandparents, to pay for co-pays, medical deductibles, and tuition for private schools at any level.

If you have any questions on ways we can put a Gift Program in place for your family, please do not hesitate to contact us at info@gallina.com or 877.638.1188.

Dean Bender, CPA, MBA
GALLINA LLP - Roseville, CA



Construction Firms Add 39,000 Jobs in January, Bringing Employment to Highest Level Since 2009 as Sector's Unemployment Rate Drops To 9.8 Percent

Job Gains Come as Most Firms Report Plans to Expand Headcount in 2015 Amid Rising

You're Entitled To

Authored Articles and GALLINA Quick Sheets

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Demand, But Worry About Growing Shortages of Qualified Workers to Fill Available Positions.

Construction employers added 39,000 jobs in January and 308,000 over the past year, reaching the highest employment total since February 2009, as the sector's unemployment rate fell to 9.8 percent, according to an analysis by the Associated General Contractors of America. Association officials said the job gains come as most construction firms report plans to expand headcount this year, but worry about growing shortages of qualified workers.

"Contractors have stayed busy this winter and expect to keep hiring through 2015-if they can find the workers they need," said Ken Simonson, the association's chief economist. "The list of projects is growing in most states and most nonresidential segments, in addition to continuing strong demand for apartment buildings."

Construction employment totaled 6,314,000 in January, the highest level in nearly six years, with a 12-month gain of 308,000 jobs or 5.1 percent, Simonson noted. Residential building and specialty trade contractors added a combined 20,100 employees since December and 162,400 (7.2 percent) over 12 months. Nonresidential contractors-building, specialty trade, and heavy and civil engineering construction firms-hired a net of 18,600 workers for the month and 145,600 (3.9 percent) since January 2014.

The number of workers who said they looked for work in the past month and had last worked in construction fell from 1,045,000 a year earlier to 811,000-the lowest January mark since January 2000. Although winter conditions typically result in a high January unemployment rate for construction, the 9.8 percent unemployment rate for these workers was the lowest January rate since January 2007 and represented a steep drop from a year earlier, when the rate was 12.3 percent.

"The combination of rapidly rising employment, good prospects for 2015, and a depleted pool of unemployed workers with construction experience means contractors may have a hard time filling jobs with the workers they need in coming months," Simonson said. "Worker availability challenges have replaced a lack of projects as the biggest worry for many contractors."

Association officials noted that the new construction employment data is consistent with its recently-released Construction Hiring and Business Outlook (link is external), where 80 percent of construction firms reported they plan to expand head counts in 2015. But they cautioned that 87 percent of firms report having a hard time finding qualified workers and urged officials to act on the measured outlined in the association's Workforce Development Plan.

"Construction firms appear ready to add jobs this year at the fastest rate in a decade," said Stephen E. Sandherr, the association's chief executive officer. "But those employment gains depend on finding new ways to expose and prepare high school students for high-paying careers in construction."

This article is reprinted with permission of The Associated General Contractors of America

Abusive Tax Shelters Again on the IRS "Dirty Dozen" List of Tax Scams for the 2015 Filing Season

The Internal Revenue Service today said using abusive tax shelters and structures to avoid paying taxes continues to be a problem and remains on its annual list of tax scams known as the "Dirty Dozen" for the 2015 filing season.

"The IRS is committed to stopping complex tax avoidance schemes and the people who create and sell them," said IRS Commissioner John Koskinen. "The vast majority of taxpayers pay their fair share, and we are warning everyone to watch out for people peddling tax shelters that sound too good to be true." Compiled annually, the "Dirty Dozen" lists a variety of common scams that taxpayers may encounter anytime but many of these schemes peak during filing season as people prepare their returns or hire people to help with their taxes. Illegal scams can lead to significant penalties and interest and possible criminal prosecution. IRS Criminal Investigation works closely with the Department of Justice (DOJ) to shutdown scams and prosecute the criminals behind them.

Abusive Tax Structures

Abusive tax schemes have evolved from simple structuring of abusive domestic and foreign trust arrangements into sophisticated strategies that take advantage of the financial secrecy laws of some foreign jurisdictions and the availability of credit/debit cards issued from offshore financial institutions. IRS Criminal Investigation (CI) has developed a nationally coordinated program to combat these abusive tax schemes. CI's primary focus is on the identification and investigation of the tax scheme promoters as well as those who play a substantial or integral role in facilitating, aiding, assisting, or furthering the abusive tax scheme, such as accountants or lawyers. Just as important is the investigation of investors who knowingly participate in abusive tax schemes. What is an abusive scheme? The Abusive Tax Schemes program encompasses violations of the Internal Revenue Code (IRC) and related statutes where multiple flow-through entities are used as an integral part of the taxpayer's scheme to evade taxes. These schemes are characterized by the use of Limited Liability Companies (LLCs), Limited Liability Partnerships (LLPs), International Business Companies (IBCs), foreign financial accounts, offshore credit/debit cards and other similar instruments. The schemes are usually complex involving multi-layer transactions for the purpose of concealing the true nature and ownership of the taxable income and/or assets.

Whether something is "too good to be true" is important to consider before buying into any arrangements that promise to "eliminate" or "substantially reduce" your tax liability. If an arrangement uses unnecessary steps or a form that does not match its substance, then that arrangement is an abusive scheme. Another thing to remember is that the promoters of abusive tax schemes often employ financial instruments in their schemes; however, the instruments are used for improper purposes including the facilitation of tax evasion.

Misuse of Trusts

Trusts also commonly show up in abusive tax structures. They are highlighted here because unscrupulous promoters continue to urge taxpayers to transfer large amounts of assets into trusts. These assets include not only cash and investments, but also successful on-going businesses. There are legitimate uses of trusts in tax and estate planning, but the IRS commonly sees highly questionable transactions. These transactions promise reduced taxable income, inflated deductions for personal expenses, reduced (even to zero) self-employment taxes, and reduced estate or gift transfer taxes. These transactions commonly arise when taxpayers are transferring wealth from one generation to another. Questionable trusts rarely deliver the tax benefits promised and are used primarily as a means of avoiding income tax liability and hiding assets from creditors, including the IRS. IRS personnel continue to see an increase in the improper use of private annuity trusts and foreign trusts to shift income and deduct personal expenses, as well as to avoid estate transfer taxes. As with other arrangements, taxpayers should seek the advice of a trusted professional before entering a trust arrangement.

Captive Insurance

Another abuse involving a legitimate tax structure involves certain small or "micro" captive insurance companies. Tax law allows businesses to create "captive" insurance companies to enable those businesses to protect against certain risks. The insured claims deductions under the tax code for premiums paid for the insurance policies while the premiums end up with the captive insurance company owned by same owners of the insured or family members. The captive insurance company, in turn, can elect under a separate section of the tax code to be taxed only on the investment income from the pool of premiums, excluding taxable income of up to $1.2 million per year in net written premiums.

In the abusive structure, unscrupulous promoters persuade closely held entities to participate in this scheme by assisting entities to create captive insurance companies onshore or offshore, drafting organizational documents and preparing initial filings to state insurance authorities and the IRS. The promoters assist with creating and "selling" to the entities often times poorly drafted "insurance" binders and policies to cover ordinary business risks or esoteric, implausible risks for exorbitant "premiums," while maintaining their economical commercial coverage with traditional insurers.

Total amounts of annual premiums often equal the amount of deductions business entities need to reduce income for the year; or, for a wealthy entity, total premiums amount to $1.2 million annually to take full advantage of the Code provision. Underwriting and actuarial substantiation for the insurance premiums paid are either missing or insufficient. The promoters manage the entities' captive insurance companies year after year for hefty fees, assisting taxpayers unsophisticated in insurance to continue the charade.

Agriculture of the Future?
Drones Given Green Light for Farmers

Drone on, the government says. Just not through the night sky. Or close to an airport. Or out of the operator's sight. And probably not winging its way with a pizza or package, any time soon.

Long-anticipated rules proposed Sunday will open an era in which small (under 55 pounds) commercial unmanned aircraft perform routine tasks - crop monitoring, aerial photography, inspections of bridges and cell towers, and much more. But not right away. Final rules are probably two to three years away. And when they are in place, they may include a separate category with fewer restrictions for very small drones, likely to be defined as less than 4.4 pounds.

The agency is researching technology that he hopes will eventually enable small drones to fly safely beyond the sight of operators, Huerta said. He emphasized that introduction of commercial drones into the national airspace will be a staged process. The government is also looking ahead to how larger drones might be allowed to fly in airspace shared by manned aircraft, for example, he said. One of the key safety concerns is that without a human on board the ability to "see and avoid" other aircraft is limited. Another concern is that the link between the operator and a remote control aircraft can be broken, causing the drone to fly away until it loses power or collides with something. Cases of flyaway drones getting stuck in trees or hitting buildings are rampant. Last month, a drone that its operator lost control of flew over the White House fence and crashed on the lawn before Secret Service agents could block it.

Even with the proposed safety restrictions, drones can transform urban infrastructure management, farming, public safety, coastal security, military training, search and rescue, disaster response and more, the White House said in a presidential memorandum on privacy released in conjunction with the rules. The memorandum lays out measures federal agencies must follow to guard against abuse of data collected in their drone flights. Among other steps, the order requires agencies to review privacy and civil rights protections before deploying drone technology and to adhere to a range of controls. Personally identifiable information collected in drone flights is to be kept no longer than 180 days, although there are exceptions. For complete details on how this could effect you and your agriculture interests, you can read the article in it's entirety *here.*

Article courtesy of the Associated Press

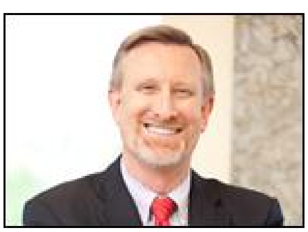
Don't Miss These Upcoming Opportunities!

Sacramento, CA - Maximizing Millenials in the Workplace

Feb. 17, 2015

GALLINA LLP's *Director of Recruitment and Marketing, Katie McConnell, CPA,* will be speaking at the Greater Sacramento Area Economic Council's meeting regarding "Maximizing Millenials in the Workplace" on Tuesday, February 17th.

With millennials comes change. Millennials are the largest generation on our planet, and they are the greatest influencers over norms, expectations, and behavior. Strategically targeting this generation and understanding the unique qualities that they bring to the workforce will pay dividends now and into the future.



Ontario, CA - 2015 Tax Update

Feb, 19, 2015

GALLINA LLP's *Greg Barragar, CPA, MST*, will be presenting a 2015 Tax Update to the Inland Empire Chapter of the Institute of Management Accountants on Thursday, February 19th in Ontario, California.

Greg manages the Ontario office tax and advisory practice with an extensive history of over 30 years of public accounting experience. His daily involvement includes all significant aspects of federal and state tax matters including tax planning, research and compliance issues of corporations, partnerships, LLC, individuals, estates and trusts. He also focuses on tax controversy representation, estate and succession planning, Manufacturing & Exporting IC-DISC implementation and compliance, as well as merger and acquisition planning.

Stockton, CA - Building Your Pipeline to Skilled Labor

Feb. 27, 2015

Manufacturers in Stockton, CA, join SME for the presentation, Building Your Pipeline to Skilled Labor on Friday, February 27, 2015. Space is limited!! Register here for this fantastic event and reserve your spot today!

GALLINA Recently put on a seminar in conjunction with SME on "How Manufacturers Can Take Advantage of Tax Credits and Incentives." Our own **Partner, Mark Bellows, CPA,** presented as well as **Senior Managers, Jesse Wutkee, CPA**, and **Shevar Goonwardena, CPA**. Video of the presentation can be found *here* and slides from the presentation can be downloaded *here*.

GALLINA Tax Bites:

Be Sure to Deduct All of the Mileage You're Entitled To

You probably know that miles driven for business purposes can be deductible. But did you know that you might also be able to deduct miles driven for other purposes? The rates vary depending on the purpose and the year:

- Business: 56 cents (2014), 57.5 cents (2015)
- Medical: 23.5 cents (2014), 23 cents (2015)
- Moving: 23.5 cents (2014), 23 cents (2015)
- Charitable: 14 cents (2014 and 2015)

The rules surrounding the various mileage deductions are complex, however. Some are subject to floors and some require you to meet specific tests in order to qualify. There are also substantiation requirements, which include tracking miles driven. And, in some cases, you might be better off deducting actual expenses rather than using the mileage rates.

So contact us to help ensure you deduct all the mileage you're entitled to on your 2014 tax return -- but not more. (You don't want to risk back taxes and penalties later.) And if you drove potentially eligible miles in 2014 but can't deduct them because you didn't track them, then start tracking your miles now so you can potentially take advantage of the deduction when you file your 2015 return next year.

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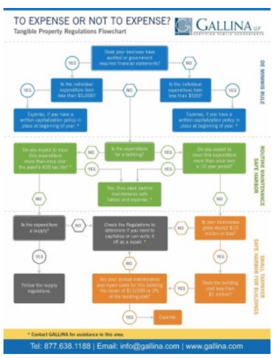
Authored Articles and GALLINA Quick Sheets:

GALLINA partners are dedicated to their clients' businesses and industries. To provide the most relevant information, GALLINA passes along articles from our professional service affiliates as well as professional articles written by GALLINA firm partners. These articles are a great read for general knowledge and a **"must read"** if they are directly related to your industry.

Authored Articles *(free premium content)*



- [Tangible Property Regulations Flowchart]()
- [2014 Year-End Financial Reporting for Manufacturers & Distributors]()

GALLINA Quick Sheets are 1-2 page reference sheets containing tax or planning tips created to quickly provide important information for your business or personal benefit.

GALLINA Quick Sheets *(all new releases)*

- [IRS Can Help if W-2s Are Missing]()
- [Parent's Don't Miss out on These Tax Savers]()
- [How to Get a Copy of Your Prior Year Tax Information]()
- [Important Information about Advance Payments of the Premium and Your Tax Return]()

Did you miss last month's Resource Report? You can download your copy *[here]()* and catch up on all the great articles and information today!

We have the relationships...
To better serve our clients as a resource, GALLINA has created a complimentary Professional Services Referral Network. Whether you're in need of banking professionals, insurance, bonding, investment planning, payroll/HR processing or a personnel recruiter, we want to encourage our clients to utilize the relationships GALLINA has established over the past 40 years. If you're in need of any professional services, please contact Client Relations via email or phone 877.638.1188 or the partner in charge of your work. We will point you in the right direction with the professional service providers you need.

Not a client of GALLINA yet?
We understand that moving firms may seem like a daunting task. GALLINA makes the transition near effortless. Our consulting services are individually designed to provide the right combination of services for your business. Contact **client relations** now to set up an appointment to discuss your business with a GALLINA partner. Waiting may be costing you more than you realize.

GALLINA LLP, CPAs

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