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Resource Report

March 2015 • www.gallina.com

**Greetings!**

Do you hear that? It's the sound of calculator keys clicking away as we here at GALLINA are busying ourselves with all the corporate tax filings coming due March 16th! This month's Resource Report includes helpful tax tips you will find very useful on this year's tax returns.

Speaking of, have you filed your tax returns yet? Don't fear - there's still time to get in and under the deadline! Contact your GALLINA team member as soon as possible to get in today!

*"Few of us ever test our powers of deduction, except when filling out an income tax form." - Laurence J. Peter, author*

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:*

### How to Determine if the Net Investment Income Tax Applies to You

If you have income from investments, you may be subject to the Net Investment Income Tax. You may owe this tax if you receive investment income and your income for the year is more than certain limits. Here are some key tips you should know about this tax:

* **Net Investment Income Tax.** The law requires a tax of 3.8 percent on the lesser of either your net investment income or the amount by which your modified adjusted gross income exceeds a threshold amount based on your filing status.

* **Income Threshold Amounts.** You may owe this tax if your modified adjusted gross income is more than the following amount for your filing status:

| Filing Status | Threshold Amount |
|---|---|
| Single or Head of household | $200,000 |
| Married filing jointly | $250,000 |
| Married filing separately | $125,000 |
| Qualifying widow(er) with a child | $250,000 |

***Net Investment Income.** This amount generally includes income such as:

- Interest,
- Dividends,
- Capital gains,
- Rental and royalty income, and
- Non-qualified annuities.

This list is not all-inclusive. Net investment income normally does not include wages and most self-employment income. It does not include unemployment compensation, Social Security benefits or alimony. It also does not include any gain from the sale of your main home that you exclude from your income. Refer to Form 8960, Net Investment Income Tax, to see if this tax applies to you. You can check the form's instructions for the details on how to figure the tax.

* **How to Report.** If you owe the tax, you must file Form 8960 with your federal tax return. If you had too little tax withheld or did not pay enough estimated taxes, you may have to pay an estimated tax penalty. For more on this topic, visit IRS.gov/aca.

## It's Time to Collect! How to Get Those Outstanding Receivables Paid During Refund Season

The key to positive cash flow is collecting your outstanding invoices in full and on time. Easier said than done - but it's not impossible!

Ask a room full of business owners if they enjoy dealing with the money side of their operations and you'll be met with a room full of people shaking their heads no. It's a cumbersome process for businesses, especially smaller companies with limited staff who would rather focus on growing their business than sending out invoices.

Every business is cyclical with cash flow ups and downs. The key is to find a way to keep the cash coming in as predictably as possible. Seems like a lofty goal? Well, it's not. Luckily, there are systems and processes that make it easier to collect the cash you've earned so your business can continue to flourish. Here are some best practice tips on how to collect your money faster:

- **Add Late Fees.** If you've set your payment terms out clearly on your invoice and the client has ignored them, you may be entitled to charge a late fee. Be prepared for robust feedback from your clients if you go down this route, and consider reversing the charge once the lesson has been learned.
- **Communicate With Your Clients.** Sending out reminder emails can help, but if your client's accounts payable doesn't really know who you are, there is a great possibility they'll ignore your reminders. A better

## REGIONAL SPOTLIGHT: California News

New California Mandatory Paid Sick Leave Act Take Effect July 1, 2015

## Authored Articles and GALLINA Quick Sheets

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option is to pick up the phone and talk to someone. Reminders from a real person are much more persuasive than automated emails.

- **Keep Payment Terms Short.** Why wait 30 days for payment when you could be paid in a week? If you're serious about the work you do, and if you try your best to supply your products and services to your clients' in a timely fashion, there's no reason why they shouldn't try their best to pay you just as quickly.
- **Call Early and Call Often.** Let them know immediately their account is overdue. Send a statement or reminder after a few days, and pick up the phone if the payment is overdue by a week or more. Don't let it drift.

## Taking Advantage of Tangible Property Safe Harbors

If your business has made repairs to tangible property, such as buildings, machinery, equipment and vehicles, you may be eligible for a deduction on your 2014 income tax return. But you must make sure they were truly "repairs," and not actually "improvements."

Why? Costs incurred to improve tangible property must be depreciated over a period of years. But costs incurred on incidental repairs and maintenance can be expensed and immediately deducted. Distinguishing between repairs and improvements can be difficult, but a couple of IRS safe harbors can help:

**Routine maintenance safe harbor.** Recurring activities dedicated to keeping property in efficient operating condition can be expensed. These are activities that your business reasonably expects to perform more than once during the property's "class life," as defined by the IRS.

**Small business safe harbor.** For buildings that initially cost $1 million or less, qualified small businesses may elect to deduct the lesser of $10,000 or 2% of the unadjusted basis of the property for repairs, maintenance, improvements and similar activities each year. (A qualified small business is generally one with gross receipts of $10 million or less.)

Contact us at: 877.638.1188 or **info@gallina.com** to ensure that you're taking all of the repair and maintenance deductions you're entitled to.




## Key Points to Know about Early Retirement Distributions

Some people take an early withdrawal from their IRA or retirement plan. Doing so in many cases triggers an added tax on top of the income tax you may have to pay. Here are some key points you should know about taking an early distribution:

**1. Early Withdrawals.** An early withdrawal normally means taking the money out of your retirement plan before you reach age 59½.

**2. Additional Tax.** If you took an early withdrawal from a plan last year, you must report it to the IRS. You may have to pay income tax on the amount you took out. If it was an early withdrawal, you may have to pay an added 10 percent tax.

**3. Nontaxable Withdrawals.** The added 10 percent tax does not apply to nontaxable withdrawals. They include withdrawals of your cost to participate in the plan. Your cost includes contributions that you paid tax on before you put them into the plan. A rollover is a type of nontaxable withdrawal. A rollover occurs when you take cash or other assets from one plan and contribute the amount to another plan. You normally have 60 days to complete a rollover to make it tax-free.

**4. Check Exceptions.** There are many exceptions to the additional 10 percent tax. Some of the rules for retirement plans are different from the rules for IRAs. See IRS.gov for details about these rules.

**5. File Form 5329.** If you made an early withdrawal last year, you may need to file a form with your federal tax return. See Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, for details.

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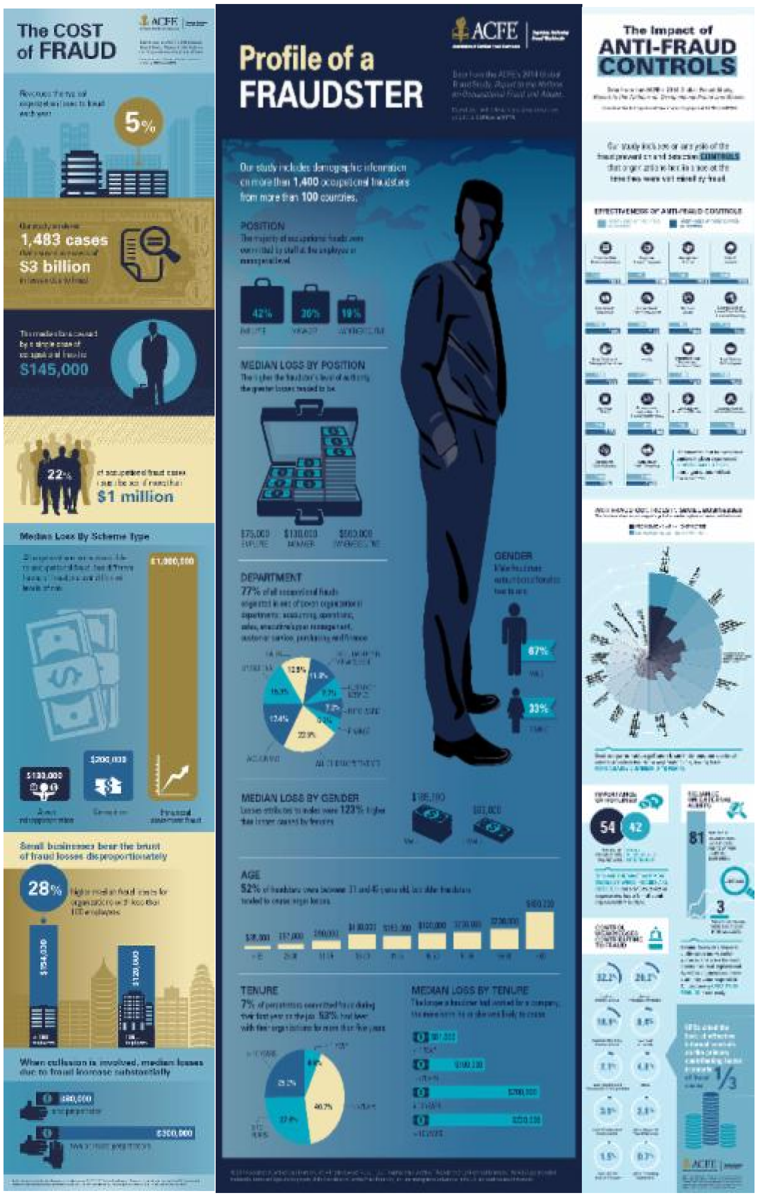
## *INDUSTRY FOCUS: Construction & Fraud*

### Is Employee Fraud Hurting Your Bottom Line?

The average business loses 5% of its annual revenues to occupational fraud, according to estimates by participants in an Association of Certified Fraud Examiners (ACFE) survey. But for the construction industry, losses pertaining to jobsites, plant sites and job management are more common than accounting and financial fraud. And while you may think you're losing the battle against fraud and theft, there are ways you can beef up your controls to fight back against fraudsters.

**Curious to find out more? In addition to the valuable infographics below, you can find the full article *here* and download for future reference.**




*The Cost of Fraud, Profile of a Fraudster, and The Impact of Anti-Fraud Controls: Copyright 2015 by the Association of Certified Fraud Examiners, Inc.*

## *GALLINA Tax Bites*

### Tax Tip for Parents of College Students

If you have a child in college, you may not qualify for the American Opportunity credit on your 2014 income tax return because your income is too high (modified adjusted gross income phaseout range of $80,000-$90,000; $160,000-$180,000 for joint filers), but your child might. The maximum credit, per student, is $2,500 per year for the first four years of postsecondary education.

There's one potential downside: If your dependent child claims the credit, you must forgo your dependency exemption for him or her - and the child can't take the exemption. But because of the exemption phaseout, you might lose the benefit of your exemption anyway. The 2014 adjusted gross income thresholds for the exemption phaseout are $254,200 (singles), $279,650 (heads of households), $305,050 (married filing jointly) and $152,525 (married filing separately).

If your exemption is fully phased out, there likely is no downside to your child taking the credit. If your exemption isn't fully phased out, compare the tax savings your child would receive from the credit with the savings you'd receive from the exemption to determine which break will provide the greater overall savings for your family.

For more information, please visit: http://www.irs.gov/uac/American-Opportunity-Tax-Credit:-Questions-and-Answers or contact your GALLINA partner today.



## *REGIONAL SPOTLIGHT: California News*

### New California Mandatory Paid Sick Leave Act Takes Effect July 1, 2015 - Are You Prepared?

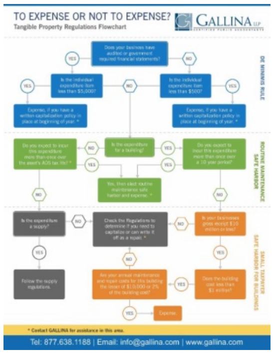
This past fall, California became the second state to provide paid sick leave by enacting the HEALTHY WORKPLACES, HEALTHY FAMILY ACT OF 2014. This Act ensures "that workers in California can address their own health needs and the health needs of their families by requiring employers to provide a minimum level of paid sick days including time for family care."

GALLINA has prepared a quick one-sheet reference with important facts on how this affects you and your business. Download ***here*** to prepare for these important upcoming changes. Non-Compliance comes with hefty fines, so don't delay - make sure you're ready today!

## *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)*

- **Top 10 Tax Tips About Home Mortgage Debt Cancellation**
- **The Health Care Law and Taxes: Reporting Coverage, Exemptions and Payments**
- **Claiming a Tax Deduction for Medical and Dental Expenses**
- **Changes to Small Business Health Care Tax Credit**

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!

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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.

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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.

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