This month's edition inside!

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Resource Report

February 2016 • www.gallina.com

Greetings!

Tax Season - here we come! We here at GALLINA are already in the full swing of things and hard at work serving our dedicated clients.

Are you ready to file your taxes or will you need a little more time this year? Regardless, we're here to help you. Whether filing or an extension, your GALLINA team is ready and waiting.

Contact us today at 877.638.1188 or email solutions@gallina.com.

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In This Issue:

GALLINA Tax Bites

Two Extended

Is It Time to Get Accountable with Your Employees' Expenses?

Credits Can Save Business Taxes on Their 2015 Returns

The Protecting Americans from Tax Hikes Act of 2015 (PATH Act) extended a wide variety of tax breaks, in some cases making them permanent. Extended breaks include many tax credits — which are particularly valuable because they reduce taxes dollar-for-dollar (compared to deductions, for example, which reduce only the amount of income that's taxed).

Here are two extended credits that can save businesses taxes on their 2015 returns:

1. The Research Credit

This credit (also commonly referred to as the "research and development" or "research and experimentation" credit) has been made permanent. It rewards businesses that increase their investments in research. The credit, generally equal to a portion of qualified research expenses, is complicated to calculate, but the tax savings can be substantial.

2. The Work Opportunity Credit

This credit has been extended through 2019. It's available for hiring from certain disadvantaged groups, such as food stamp recipients, ex-felons and

Many companies start out, and get pretty far down the road, using the "per diem" approach when reimbursing employees for lodging, meals and incidental expenses. Doing so involves the use of either IRS tables or a simplified high-low method to reimburse workers up to specified limits.

The per diem approach is relatively simple and doesn't involve too much record keeping. But it also puts businesses at risk if they exceed the per diem limits, exposing them to IRS penalties and employees to higher tax liability. For this reason, companies often reach a point where they create an "accountable plan" for handling employee expense reimbursements.

Reaping the Tax Advantages

An accountable plan is a formal arrangement to advance, reimburse or provide allowances for business expenses. The primary advantage is that your business can deduct expenses (subject to a 50 percent limit for meals and entertainment), and employees can usually exclude 100 percent of advances or reimbursements from their incomes. Workers whose jobs involve frequent travel may realize significant tax savings.

Qualifying for Eligibility

To qualify as "accountable" under IRS rules, your plan must meet the following criteria:

- It must pay expenses that would otherwise be deductible by the employee.
- Payments must be for "ordinary and necessary" business expenses such as airfare and lodging charges.
- Employees must substantiate these expenses — including amounts, times and places — ideally at least monthly.
- Employees must return any advances or allowances they can't substantiate within a reasonable time, typically 120 days.

Phony Calls About Health Insurance

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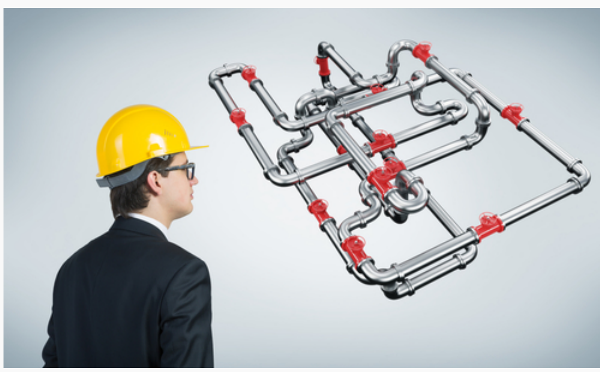
veterans who've been unemployed for four weeks or more. The maximum credit ranges from $2,400 for most groups to $9,600 for disabled veterans who've been unemployed for six months or more.

Want to know if you might qualify for either of these credits? Or what other breaks extended by the PATH Act could save taxes on your 2015 return? Contact us today at 877.683.1188 or solutions@gallina.com.

If you fail to meet these conditions, the IRS will treat your plan as nonaccountable, transforming all reimbursements into wages taxable to the employee, subject to income and employment taxes — though potentially deductible by the employee.

Getting Some Help

Accountable plans take time to establish and require meticulous record keeping. Let us help. We'd be happy to assist you in setting up your accountable plan and regularly reviewing its compliance with IRS rules.



Construction Spotlight

Accounting for Change Orders

Why You Need to Handle Them With Care

Change orders are a fact of life in the construction industry. To help ensure a project's success, it's critical that contractors understand the contract's change-order-approval procedures and follow them to the letter.

It's also important to treat change orders properly for accounting purposes, especially for construction businesses that use the percentage-of-completion method. Failure to do so can result in underbillings or profit fade, two major red flags for sureties and lenders.

Avoid These Common Mistakes

It's not unusual for contractors to begin out-of-scope work before a change order is approved. But failure to properly account for the costs and revenues associated with this work can have a negative impact on a construction business's financial statements. Suppose, for example, that a contractor records costs attributable to a change order in total incurred job costs to date, without making a corresponding adjustment to the total contract price and total estimated contract costs. To a surety or lender, this may indicate excessive underbillings.

Profit fade can occur if contractors are overly optimistic about their chances of receiving change order revenue. If a contractor increases the total contract price based on out-of-scope work but is unable to secure change order approval, profits may fade as the job progresses, thus shaking the confidence of sureties and lenders.

Know the Rules

Generally, change orders fall into one of three categories: 1. Approved; 2. Unpriced (approved as to scope but not price); and 3. Unapproved.

1. Approved Change Orders: It's appropriate to adjust incurred costs, total estimated costs and the total contract price. Depending on the contract's change-order provisions, this may increase the construction business's estimated gross profits.

2. Unpriced Change Orders: If the parties agree on the scope of work but leave negotiations on price for later, the accounting treatment depends on the probability that the contractor will recover its costs. If it's not probable, change order costs are treated as costs of contract performance in the period during which they're incurred and the contract price is not adjusted. As a result, the contractor's estimated gross profit decreases.

If it's probable that the costs will be recovered through a contract price adjustment, the construction business has two choices: 1) Defer the costs until the parties have agreed on the change in contract price, or 2) Treat them as costs of contract performance in the period incurred and increase the contract price to the extent of the costs incurred (resulting in no change in estimated gross profit). To determine whether recovery is probable, a contractor should consider its past experience in negotiating change orders and other factors.

If it's probable that the contract price will be increased by an amount that exceeds the costs incurred (increasing estimated gross profit), the contractor may recognize increased revenues, provided realization of those revenues is "assured beyond a reasonable doubt."

3. Unapproved Change Orders: These should be treated as claims. It's appropriate to recognize additional contract revenue only if, under guidance provided in the accounting rules, it's probable that a claim will generate such revenue and the amount can be reliably estimated.

Bottom Line

By following these rules, you can improve the accuracy of your financial statements and instill confidence in sureties and lenders.

Alert, Changes, and Updates

Phony Calls about Health Insurance

Robocalls can be more annoying than a lingering head cold. Recently, some people got robocalls that seemed to be about health insurance and the Health Insurance Marketplace, but the calls were a con. The callers were phishing for personal information. People who work in the Marketplace don't make cold calls, and they never ask for personal information. If you get a call like this, hang up.

The phone numbers showed up with a local area code. The recorded message sounded urgent: "You need to buy health insurance or face a fine. To learn more, press 1." A person who works in the Health

Insurance Marketplace got the call and knew it was fishy, so she pressed 1. The operator claimed to 'work with the law,' and asked for the person's full name, date of birth, phone number, income information and Social Security number. The person who received the call knew it was nonsense, so she hung up and contacted the Federal Trade Commission.

If you get a recorded sales call, but you didn't give the caller written permission to call you, the call is illegal. Don't press 1 to speak to the operator or get your name taken off the list, and don't give any personal information. If you respond, you'll probably get more calls. If you want information about health insurance in your state, visit HealthCare.gov. If you get a call like this, please report it to the Federal Trade Commission.

If you gave out sensitive information – like your social security number – to a caller, and you think it might have been a scam, read what to do if information is lost or exposed.

Federal Trade Commission | 02/18

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.

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:

- ***Overview of the Employer Shared Responsibility Provisions***
- ***Self-Insured Employers Must File Health Coverage Information Returns***
- ***Ten Key Tax Facts About Home Sales***
- ***Tips on Travel While Giving Your Services to Charity***

We have the relationships...

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