

TaxTips

Small Business Edition • Summer 2014

Tips on Tips

The IRS doesn't treat mandatory gratuity as a tip

While tipping is not mandatory in most of the U.S., it is often expected in many circumstances when services are provided. The tip income from services—whether cash or included in a charge—is taxable income. As taxable income, these tips are subject to federal income, social security and Medicare taxes, and may be subject to state income tax as well.

Employees who receive \$20 or more in tips in any one month should report all tips to their employer; however, all tips are taxable income and should be reported on the employee's tax return. The employee should maintain records of tip income. The IRS provides Publication 1244, *Employee's Daily Record of Tips and Report to Employer*, for substantiation in the event of an audit.

Beginning January 1, 2014, the IRS defines tips as follows:

1. The gratuity must be made free from compulsion;
2. The customer must have the unrestricted right to determine the amount;
3. The gratuity should not be the subject of negotiation or dictated by employer policy; and
4. Generally, the customer has the right to determine who receives the gratuity.

Effective immediately, the IRS will treat automatic gratuities on restaurant bills as wages and not tips. Automatic gratuities are often placed on bills of large parties to prevent under-tipping. The IRS views this as the latest step in the effort to prevent underreporting of tip income.



Day Care Providers Allowed a Per Diem

Breakfast, lunch, dinner and snacks

Taxpayers who provide day care services in their home may find it difficult to track the cost of meals they provide to the children. Therefore, the IRS allows day care providers to deduct a standard meal allowance, per child, in lieu of actual expenses. You can use the standard meal and snack rates for a maximum of one breakfast, one lunch, one dinner and three snacks per eligible child per day. If you receive any type of reimbursement for a particular meal or snack, you can deduct only the portion of the applicable standard meal or snack rate that is more than the amount of the reimbursement.

Rates for 2014

Meals	Alaska	Hawaii	All other States
Breakfast	\$2.04	\$1.49	\$1.28
Lunch/ Dinner	\$3.89	\$2.81	\$2.40
Snack	\$1.16	\$0.83	\$0.71



ACA Reminders

Reimbursement of Individual Policies

*ACA reminder for
group health plans*

Do you reimburse employees for individual policies? If you do, then you may be in violation of recently issued IRS guidance. Up until now, it's been unclear whether such a practice is in compliance with the *Affordable Care Act* (ACA). The IRS and Department of Labor (DOL) interpret that a business engaging in this practice is actually creating its own group health plan. A group health plan must not provide an annual limitation on benefits. The amount paid for insurance is deemed to be the annual limitation; thus it would fail the requirements.

Although such an arrangement is still considered tax-free, it's subject to a penalty because it fails to meet certain group health plan requirements. This penalty imposes an amount of \$100 per day, per participant.

Notice of Coverage to Newly Hired Employees

*ACA reminder for
employee orientations*

The *Affordable Care Act* (ACA) requires employers to provide all new hires with a written notice about ACA's Health Insurance Marketplace. This requirement is found in Section 18B of the *Fair Labor Standards Act* (FLSA). ACA's exchange notice requirement applies to employers that are subject to the FLSA. Employers must provide the exchange notice to each employee, regardless of plan

enrollment status or part-time or full-time status. Employers are not required to provide a separate notice to dependents or other individuals who are or may become eligible for coverage under the plan but who are not employees. Employees hired after October 1, 2014, must be provided this notice within 14 days of their start date.

The exchange notice should:

- Inform employees about the existence of the exchange and describe the services provided and the manner in which the employee may contact the exchange to request assistance.
- Explain how employees may be eligible for a premium tax credit or a cost-sharing reduction if the employer's plan does not meet certain requirements.
- Inform employees that if they purchase coverage through the exchange, they may lose any employer contribution toward the cost of employer-provided coverage, and that all or a portion of this employer contribution may be excludable for federal income tax purposes.
- Include contact information for the exchange and an explanation of appeal rights.

The Department of Labor has provided two sample exchange notices, one for employers who offer a health plan to some or all employees and one for employers who do not offer a health plan. Employers may use one of these models, as applicable, or a modified version, provided the notice meets the content requirements described above.



Quick Tips

Seasonal Worker Exception in ACA *ACA reminder for future planning*

The employer mandate, a portion of the *Affordable Care Act* (ACA) that penalizes employers for not offering health insurance to full-time employees, has numerous exceptions to ease the burden on employers. One of these exceptions is known as the seasonal worker exception. This exception provides relief for employers who employ 50 full-time employees or more in the preceding year, but part of the reason for breaking the 50-employee threshold is due to seasonal employment. A seasonal worker is defined by the Department of Labor as:

“Labor is performed on a seasonal basis where, ordinarily, the employment pertains to or is of the kind exclusively performed at certain seasons or periods of the year and which, from its nature, may not be continuous or carried on throughout the year.”

This definition is ambiguous and until the IRS releases further regulations, the employer must use good faith to determine whether a worker is seasonal. The regulations state that if the employer breaks the 50 full-time employee threshold for four calendar months or less due to seasonal workers, the employer is not an applicable large employer as defined by the employer mandate and will not owe penalties. These months do not need to be consecutive.

Although the employer mandate has been pushed back to January 1, 2015, keep this in mind for future planning if your business is close to having 50 full-time employees.

Virtual Currency is Treated as Property *Bitcoin becoming mainstream form of payment*

Virtual currency is a type of unregulated, digital money issued and usually controlled by its developers and used among members of a specific virtual community. With the increase in popularity and mainstream acceptance of virtual currency (e.g., Bitcoin), it's not surprising that the IRS determined that virtual currency is treated as property for U.S. Federal tax purposes. This means the sale or exchange of convertible virtual currency, or the use of convertible virtual currency to pay for goods or services in a real-world economy transaction, has tax consequences that may result in a tax liability.

1

The per diem allowance for the substantiation method from October 1, 2013, through September 30, 2014, is \$46 for meals and incidentals and \$83 for lodging.

2

The 2014 standard mileage rate for miles driven for business purposes is 56 cents per mile.

3

For 2014, Section 179 has been restored to its original limits of \$25,000.

4

Bonus depreciation has not been reinstated for 2014.

5

The Work Opportunity Credit has not been reinstated for 2014.

6

The maximum wage that is subject to the social security tax for 2014 is \$117,000.

The tricky part is that the exchange of property to pay for an item could result in a capital gains liability. Using Bitcoin to pay for a cup of coffee, in essence, is like paying for that cup of coffee with stocks. The IRS will require information reporting similar to how the tax agency receives notification of stock transactions and payments to independent contractors. This should be taken into consideration when determining whether or not your business will accept Bitcoin as a form of payment.

This treatment covers past and future transactions and tax returns. The IRS stated that it may offer relief from penalties to taxpayers who engaged in transactions before March 27, 2014, and can show "reasonable cause" for underpayments or failure to file.

New Regulations Affect Repairs & Supplies

Rule impacts over 4 million taxpayers

In September 2013, the IRS released new rules governing repairs, supplies and buying assets. The regulations became effective January 1, 2014, and all taxpayers must comply.

The IRS provided benefits for small businesses in the new rules. Some of the biggest highlights are:

- Items costing \$200 or less are considered supplies and are typically immediately deductible.

- There are several safe harbors available where the IRS will assume what you spent on repairs will not have to be capitalized on the books and generally won't challenge you.
- Taxpayers will be allowed to deduct the remaining basis when performing improvements. If you pay for a new roof, you can write off the basis of the old roof.

The IRS expects this law to impact over 4 million taxpayers. There are forms that must be filed and certain policies and elections that need to be made before this year is over. If you're interested in these opportunities, please contact me to set-up an appointment and discuss these new laws.

Luxury Automobile Depreciation Limits for 2014

Specific annual dollar limitation set

Automobiles, trucks and vans are subject to special annual depreciation limits, known as the luxury auto limits. The limits begin to apply for cars costing at least \$15,800. If a vehicle is four-wheeled, used mostly on public roads, and has an unloaded gross weight of no more than 6,000 pounds, the car is considered a luxury automobile. For this purpose, trucks and vans are passenger automobiles that are built on a truck chassis, including minivans and sport utility vehicles that are built on a truck chassis.

	Automobiles	Trucks & Vans
1st Year (2014)	\$3,160	\$3,460
2nd Year	\$5,100	\$5,500
3rd Year	\$3,050	\$3,350
4th Year	\$1,875	\$1,975

The truck and van limits are slightly higher than the limits that applied to trucks and vans placed in service during 2013 (and were not allowed a bonus depreciation deduction). Sport Utility Vehicles (SUVs) and pickup trucks with a gross vehicle weight rating (GVWR) in excess of 6,000 pounds continue to be exempt from the luxury vehicle depreciation caps based on a loophole in the operative definition.

