Zulch
Tax Consultants & Accountants

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Newsletter

We would like to share some important tax information you may find useful.

October Deadlines

10/17: Extended Individual Tax Returns

10/31: Quarterly Payroll Tax for the quarter of July 1 - September 30, 2016

Health Savings Accounts (HSAs)

A health savings account (HSA) is a tax-exempt or custodial account set up with a qualified HSA trustee to pay or reimburse certain medical expenses incurred by an individual, his or her spouse, and qualified dependents. The medical expenses must not be reimbursable by insurance or other sources, and distributions from HSA funds will not give rise to a medical expense deduction on the individual's tax return.

Qualifying for an HSA

To be eligible, a participant must meet the following requirements.

* Must be covered under a high deductible health plan.
* Cannot have any other health coverage. Exception: Coverage for specific things, such as disability, dental care, vision care, and long-term care, can be purchased in addition to the HDHP without disqualifying the HSA.
* Cannot be enrolled in Medicare.
* Cannot be eligible to be claimed as a dependent on someone else's tax return.

Distributions

The following rules apply to distributions from HSAs.
* Distributions used to pay for, or be reimbursed for,

qualified medical expenses not covered by insurance are tax free. Distributions for any other purpose are taxable and subject to an additional 20% penalty. Exception: The 20% penalty does not apply to distributions after reaching age 65, or death.
* Distributions used to pay for medical expenses that were incurred prior to establishing the HSA are taxable.
* Qualified medical expenses. For a complete list of qualified medical expenses, visit
www.irs.gov/publications/p969/ar02.html
* Qualified medical expenses do not include the insurance premiums for the high deductible health plan. However, insurance premiums for long-term care (subject to limits) and health coverage while unemployed qualify. Also, if over age 65, health insurance premiums (other than Medigap premiums) are qualified medical expenses for HSA purposes.

New Private Debt Collection Program to Begin Next Spring

The IRS recently announced that it plans to begin private collection of certain overdue federal tax debts next spring and has selected four contractors to implement the new program.

The new program, authorized under a federal law enacted by Congress last December, enables these designated contractors to collect, on the government's behalf, outstanding inactive tax receivables. As a condition of receiving a contract, these agencies must respect taxpayer rights including, among other things, abiding by the consumer protection provisions of the Fair Debt Collection Practices Act. The IRS has selected the following contractors to carry out this program:

- CBE Group, Conserve, Performant, and Pioneer

These private collection agencies will work on accounts where taxpayers owe money, but the IRS is no longer actively working their accounts.

The IRS will give each taxpayer and their representative written notice that their account is being transferred to a private collection agency. The agency will then send a second, separate letter to the taxpayer and their representative confirming this transfer.

For more information visit the Private Debt Collection page on IRS.gov.

Crowdfunding

Crowdfunding is used to solicit financial contributions from a large number of people, referred to as backers, over the internet. The financial contributions are used for a wide variety of projects including business ventures, social causes, and support for individuals with a special need. By using the internet, projects can gain access to funds outside of traditional sources such as banks or capital markets. The use of crowdfunding has developed rapidly in the last twenty years with billions of dollars being raised each year by this method and hundreds of projects being launched on a daily basis.

Tax Issues

Crowdfunding can create a number of tax issues. In some cases, there is little guidance from the IRS or state governments on how to treat the transactions, such as:

- Tax deductions - Generally, contributions to a crowdfunded project will not be deductible unless the project is a qualified charity. Contributions to an individual are not deductible.
- Gift tax - Unless the backer makes a very large gift (over $14,000 in 2015) or has made other large gifts, a gift tax return will not be required.
- Capital gains/losses - If the backer receives shares in a company, then a record of the basis of the shares and date(s) acquired must be kept. A capital gain or loss will occur when the shares are disposed of or in the event of a project failure.
- Loans - If the backer receives interest from a loan to a project, then the interest will need to be reported. In the event of a project failure, the backer may be able to deduct the loan as a bad debt.
- Taxable income - When an individual or nonprofit cause receives a gift, the income is generally not taxable to the recipient. Depending on the amount received and the number of backers, the recipient may receive a Form 1099-K, Payment Card and Third Party Network Transactions, from the IRS. The individual will need to consider how to inform the IRS that these funds are a gift and not income. A nonprofit will have to consider whether to file for exempt status and whether to file a 990 series tax return. A business receiving pledges will need to determine if these pledges are taxable income or nontaxable gifts.
- Self-employment tax - A business operating as a sole proprietorship that has taxable income will owe self-employment tax on the income.
- Sales tax - A business providing a product to backers in return for a donation may owe sales tax in the states where the backers reside. Sales tax rules vary widely from state to state.

As always, if you have any questions, or need additional information, please contact our office.

Sincerely,

Kevin J. Zulch and Jennifer R. Neese
Zulch Tax Consultants & Accountants