

New for 2015: The tax code doesn't get easier!

Members of Congress always talk about simplifying the tax code. But when they get a chance, they complicate it more every time. While unable to reach an agreement on almost anything, they managed to pass a law that no one will like. They began by wanting to raise some revenue. But how could they do it and still claim they didn't raise taxes? Why, increase penalties! No one should ever do the wrong tax thing, so they should pay for their mistakes. While an interesting theory, the fact is that there were already penalties for practically every conceivable wrongdoing.

So they have now matched minor indiscretions with draconian penalties. They went after businesses that are required to file 1099s, K-1 forms and W-2s. I doubt that there's a business that doesn't have at least one of these items. About four years ago, Congress raised the penalties for failing to file one of these from \$50 to \$100. They just raised the figure to \$250 per omitted 1099. They didn't stop there. The penalty increases to \$500 if the omission was intentional. There are maximum penalties for law breakers who omit filing, say 5,000 forms 1099. The maximum penalty was \$250,000; it is now \$1,500,000!

Tis is enough incentive that the IRS could well start looking for omissions on audit; it could be easy money. So businesspeople, and that includes owners filing a Schedule C with their regular tax returns as well as rental property owners filing a Schedule E, should set up a record-keeping system to keep track of people who should receive a 1099. This involves their names, Social Security numbers and addresses. Any individual or partnership providing business services to a business that is paid more than \$600 per year must be provided a form 1099-MISC. With the exception of a law firm, corporations are excluded from the filing requirements. Forms are due at the IRS by Feb. 28 of each year.

A number of important changes to due dates for tax returns were also passed. Beginning in 2017 for the year 2016, partnership returns will be due March 15 instead of April 1. This was supposed to make it easier for taxpayers to get their form K-1s in time to prepare their personal returns. But, in fact, most partnerships were having a hard time filing by April 15, so the new date will alleviate

their pressure; they won't even try to make the due date. The extended due date remains the same, Sept. 15.

All corporations used to be due by March 15. That due date will remain for S-corporations, but regular corporations will have until April 15 beginning with tax year 2016. All extensions for all of these returns generally come due on Sept. 15. But, as special dispensation, trust returns (form 1041) will now get an extension to Sept. 30. Why be uniform when an opportunity arises to boggle the mind?

Onward to a problem that the IRS recognized as serious, thought about and then came to a conclusion. Hacking has become a major problem. Many firms and organizations, including the IRS, have come to the aid of hacking victims by voluntarily providing security protection for them for a period of time. The IRS states that the fair market value of such services would normally be taxable income to the recipient victims. In view of their torment, the IRS has agreed that they would not tax the victims on that income. Isn't that nice of the IRS? I wonder what the repercussions would have been if the IRS charged the taxpayers for protection, the cause of which was the hacking of their own information. I am concerned about the mindset of the IRS to even conceive of that as income.

Congress also passed a law changing the technical definition of "gross income" regarding the right of the IRS to extend the statute of limitation. Normally the IRS has three years from the due date (or extended due date) of filing a return to charge a tax deficiency. If gross income has been understated by more than 25 percent, the statute is extended to six years. There once was a taxpayer who accurately recorded the sales price, but grossly overstated the cost of the item, part of a program the IRS has sarcastically labeled "Son of BOSS." The IRS missed the three-year period for assessing the taxpayer, so it claimed that the cost was an integral part of gross income, and they should be allowed to persecute.

The Supreme Court ruled that gross income means "before deductions," so cost has nothing to do with "gross." Congress has therefore changed the definition of "gross" in the tax code to mean "gross less the cost of sale" for purposes of the six-year extension.



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