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## Taxability of rewards programs

**Synopsis** – The IRS has long held that it won't assert that someone has taxable income merely because they personally benefited from frequent flyer miles or other in-kind promotional benefits resulting from their business or official travel. But what if the miles are an award for opening a bank account? This article describes a Tax Court case in which the taxpayer discovered that the *reason* for being awarded benefits is significant.

**Full Article** – For anyone who spends a lot of time traveling by air for business purposes, one of the nice things that typically occurs because of all the travel is frequent flyer miles. Even better, about 14 years ago the IRS addressed the controversial question of what happens tax-wise if someone earns those miles (from air travel, rental cars, hotels, etc.) on trips paid for by their company, but uses them for personal purposes. Happily, the IRS said it wasn't going to assert that someone has taxable income merely because they personally benefited from frequent flyer miles or other in-kind promotional benefits resulting from their business or official travel.

That all sounds good and seemed like the end of the matter — until a recent Tax Court decision said a taxpayer, who cashed in points to purchase a plane ticket, was taxed on the value of the ticket. What happened?

### Rewards that weren't so free

In the recent court decision, the taxpayer opened a bank account with a large financial institution and was awarded enough points because of this to earn an airline ticket. He cashed in the points, the bank acquired the ticket for him (apparently spending \$668 in the process), and at the end of the year sent him a Form 1099-MISC reporting the \$668 as income to him. When he ignored the 1099, failed to report the income, and had a couple of other problems with his return, he and the IRS ended up in Tax Court arguing over whether the ticket should be taxable to him.

The IRS's position was that, of course, it's taxable. After all, he received a Form 1099 reporting it as income. The taxpayer's position was basically that he didn't remember receiving the points or the ticket — thus, nothing should be taxed to him.

The Tax Court took a more methodical approach to its conclusion, noting that gross (taxable) income includes all income from whatever source, unless otherwise excluded. It also acknowledged (without challenging) the IRS position from 2002 regarding points or miles earned from business travel and used personally. However, its view was that the current taxpayer's situation was different.

Instead of the taxpayer receiving miles or points due to purchases that he had made (which would effectively make what he received nontaxable purchase price adjustments), he received an award for making a deposit with a bank or leaving funds with the bank for some period of time. This, to the Court, looked similar to interest and, thus, it agreed with the IRS that the \$668 was taxable income.

## Conclusion

What's the takeaway value of this case? A couple of key points: First, although probably no one was looking for it, it's nice to have the Tax Court's support of the IRS position on business miles used for personal purposes. Secondly, purchase rebates and awards are different. The **rebates** should be nontaxable (whether from credit card companies, airlines, hotels, rental car companies, or somewhere else), while the **awards**, even if you don't receive a Form 1099, are generally going to be taxable.

## Social Security and Medicare amounts for 2015

**Synopsis** – The annual inflation adjustments have also impacted the various Social Security amounts and thresholds for 2015. This article lists them, and also notes the Medicare surtax.

**Full Article** – The Social Security wage base, for computing the Social Security tax (OASDI only), increases to **\$118,500** in 2015, up from \$117,000 for 2014. There is no taxable earnings limit for Medicare (HI only) contributions.

In addition, there is a 0.9% Medicare surtax imposed on wages and self-employment (SE) income in excess of the modified adjusted gross income (MAGI) threshold amounts of \$250,000 for joint filers, \$125,000 for married separate filers, and \$200,000 for all other taxpayers. The MAGI thresholds are not adjusted for inflation. The surtax does not apply to the employer portion of the tax.

For Social Security beneficiaries under the full retirement age, the annual exempt amount increases to **\$15,720** in 2015, up from \$15,480 in 2014. These beneficiaries will be subject to a \$1 reduction in benefits for each \$2 they earn in excess of \$15,720 in 2015.

However, in the year beneficiaries reach their full retirement age (**FRA**), earnings above a different annual exemption amount (\$41,880 in 2015, up from \$41,400 in 2014) are subject to \$1 reduction in benefits for each \$3 earned over this exempt amount.

Social Security benefits are not reduced by earned income beginning with the month the beneficiary reaches FRA. But remember, Social Security benefits received may be subject to federal income tax.

The Social Security Administration estimates the average retired worker will receive \$1,328 monthly in 2015. The average monthly benefit for an aged couple where both are receiving monthly benefits is \$2,176. These amounts reflect a 1.7% cost of living adjustment (COLA).

The maximum 2015 Social Security benefit for a worker retiring at FRA is \$2,663 per month, up from \$2,642 in 2014.

## Tax Calendar

This article lists a number of key tax reporting deadlines for the **First Quarter of 2015**.

### January 15

- 4<sup>th</sup> Quarter 2014 estimated tax payment (Forms 1040-ES and 1-ES Wisconsin)

## February 2

- 4<sup>th</sup> Quarter 2014 Payroll Tax Forms (Forms 941, UC-101, WT-6).
- Annual 2014 Payroll Tax Forms (Forms 940, W-2, W-3, WT-7).

Note: In both instances above, employers who have an estimated *annual* employment tax liability of \$1,000 or less may be eligible to file Form 944 Employer's Annual Federal Tax Return.

- Give your employees their copies of 2014 Form W-2.
- Give the 2014 annual information statements (Form 1099 series) to recipients.
- Wisconsin 2014 Annual Sales Tax Return (Form ST-12).

## March 2

- Send the government their copies of payroll returns (Forms W-2 and W-3) and information returns (Forms 1096 and 1099 series).
- Wisconsin Personal Property Tax Returns are due today.

## March 16

- Corporation Income Tax Returns (Forms 1120, 1120S, Wisconsin 4, 5 or 5S) for calendar year corporations must be filed or extended to September 15, 2015.
- If the return is not extended, this is the last day for calendar year corporations to fund their 2014 retirement plan contributions.
- Wisconsin 1<sup>st</sup> Quarter 2015 Corporation tax estimate (Form 4-ES).

## Write off damaged or obsolete inventory items

**Synopsis** – This brief article discusses the procedure for writing down the carrying cost of any such items to their probable selling price (net of selling expenses).

**Full Article** – Inventory is normally valued for tax purposes at cost or the lower of cost or market value. Regardless of which of these methods is used, the end-of-the-year inventory should be reviewed to detect obsolete or damaged items. The carrying cost of any such items may be written down to their probable selling price (net of selling expenses). This rule does not apply to businesses that use the last in, first out (LIFO) method because LIFO does not distinguish between goods that have been written down and those that have not. The benefit of reviewing and/or adjusting the end of year inventory value will directly affect the profitability of your business and the overall income taxes you pay.

To claim a deduction for a write-down of obsolete inventory, you are not required to scrap the item. However, in a period ending not later than 30 days after the inventory date, the item must be actually offered for sale at the price to which the inventory is reduced.

## Deducting local lodging expenses

**Synopsis** – Generally, lodging expenses are not deductible unless the taxpayer is traveling away from home on business. However, thanks to recently finalized IRS regulations, local lodging expenses may be a deductible business expense if certain conditions are met. This article lists those conditions and provides an example.

**Full Article** – Generally, personal, living, or family expenses, such as the costs of lodging, are not deductible unless the taxpayer is traveling away from home on business. But an individual's local lodging expenses can be deducted as business expenses if the applicable facts and circumstances dictate that such treatment is appropriate and the lodging is not lavish or extravagant, or primarily to provide the individual with a social or personal benefit. If paid by an employer, the expense can be treated as a tax-free working condition fringe benefit (WCFB) for the employee. The employer can deduct the cost of WCFBs.

### Safe-Harbor Rule

IRS regulations provide a safe-harbor rule where local lodging expenses are automatically treated as ordinary and necessary business expenses if **all** of the following conditions are met:

1. The lodging is necessary for the individual to participate fully in or be available for a bona fide business meeting, conference, training activity, or other business function.
2. The lodging is for a period no longer than five calendar days and does not occur more frequently than once per calendar quarter.
3. In the case of an employee, the employer requires the employee to remain at the activity or function overnight.
4. The lodging is not lavish or extravagant under the circumstances and does not provide any significant element of personal pleasure, recreation, or benefit.

### Example: Tax-favored treatment allowed for employees

Alpha Corporation puts on periodic employee training sessions at a hotel near its main office. Alpha requires all attending employees, including employees from the local area, to remain at the hotel overnight for the bona fide business purpose of maximizing the effectiveness of the training sessions.

If Alpha directly pays the lodging costs for attending employees and the lodging is not lavish, the costs qualify as tax-free WCFBs for the attending employees, including those who live in the local area, and Alpha can deduct the costs as business expenses.

## Small business resources

**Synopsis** – This article offers small business owners a list of organizations that may have tools, information, and other resources to help their business grow.

**Full Article** – If you are a small business owner, hang on to this list of resources.

**Business USA** ([www.business.usa.gov](http://www.business.usa.gov)). The mission of Business USA is to be a centralized, one-stop platform for businesses to access government services to help them grow and hire. Business USA uses technology to connect businesses to the services and information relevant to them, regardless of where the information is located or which government agency's website, call center, or office they go to for help.

**Department of Agriculture — Office of Small and Disadvantaged Business Utilization (OSDBU)** ([www.dm.usda.gov/osdbu](http://www.dm.usda.gov/osdbu)). The mission of the OSDBU is to provide maximum opportunities for small businesses to participate in USDA contracting activities by establishing and attaining small disadvantaged business program goals.

**Department of Commerce** ([www.commerce.gov](http://www.commerce.gov)). The Commerce Department's mission is to create the conditions for economic growth and opportunity by promoting innovation, entrepreneurship, competitiveness, and stewardship.

**Department of Labor — Occupational Safety and Health Administration (OSHA)** ([www.osha.gov](http://www.osha.gov)). OSHA's mission is to assure the safety and health of America's workers by setting and enforcing standards; providing training, outreach, and education; establishing partnerships; and encouraging continual improvement in workplace safety and health.

**GobiernoUSA.gov** ([www.usa.gov/gobiernousa](http://www.usa.gov/gobiernousa)) The U.S. government's official Spanish language web portal.

**Service Corps of Retired Executives (SCORE)** ([www.score.org](http://www.score.org)). SCORE is a nonprofit organization that is federally supported to provide free business mentoring and low-cost training to aspiring and existing business owners.

**Small Business Administration (SBA)** ([www.sba.gov](http://www.sba.gov)). The mission of the SBA is to maintain and strengthen the nation's economy by enabling the establishment and viability of small businesses and by assisting in the economic recovery of communities after disasters.

**Small Business Development Centers (SBDCs)** ([www.sba.gov/sbdc](http://www.sba.gov/sbdc)). SBDCs, which are located across the U.S., are hosted by leading universities and state economic development agencies. SBDC advisors provide free business consulting and low-cost training services including business plan development, financial packaging and lending assistance, exporting and importing support, procurement and contracting aid, and health care guidance.

**Social Security Administration** ([www.ssa.gov](http://www.ssa.gov)). The Social Security Administration is the nation's primary income security agency. It pays retirement, disability, and survivors benefits to workers and their families; administers the Supplemental Security Income program; and issues Social Security numbers.

**State and Local Contacts** ([www.statelocalgov.net](http://www.statelocalgov.net)). The State and Local Government on the Net directory provides convenient one-stop access to the websites of thousands of state agencies and city and county governments.

**U.S. Department of Labor (DOL)** ([www.dol.gov](http://www.dol.gov)). The DOL administers a variety of federal labor laws, including those that guarantee workers' rights to safe and healthful working conditions, a minimum hourly wage and overtime pay, freedom from employment discrimination, unemployment insurance, and other income support.

**U.S. Equal Employment Opportunity Commission (EEOC)** ([www.eeoc.gov](http://www.eeoc.gov)). The mission of the EEOC is to eradicate employment discrimination at the workplace.  
[www.USA.gov](http://www.USA.gov). The U.S. government's official Web portal.

## Identifying charities eligible to receive tax deductible contributions

**Synopsis** - Those who are counting on a federal income tax deduction for donating to a charity should confirm that the charity has been approved by the IRS as a tax-exempt organization eligible to receive deductible contributions. This article offers step-by-step instructions for doing so via the IRS's "Exempt Organizations Select Check" tool.

**Full Article** - For some charities, verification is easy — everybody knows the American Red Cross, the Salvation Army, and Goodwill are IRS-approved tax-exempt charities. But what about verifying that tax deductions are allowed for contributions to less well-known charities? Good question.

To determine which organizations qualify as tax-exempt and are eligible to receive deductible contributions, follow this procedure.

- Access the IRS website home page at [www.irs.gov](http://www.irs.gov).
- At the top of the home page, enter into the search bar "**EO Select Check**".
- Under the search results, click on **EO Select Check**.
- Scroll down the page and click on the blue box **Exempt Organizations Select Check Tool**.
- Under the sentence *Limit search to organizations that (select only one):* select the **button** next to *Are eligible to receive tax-deductible contributions.*
- To the extent you have the requested information, fill in the blanks for the charity you are searching for. You probably won't have the charity's EIN, but if you know its name, city and state where it's located, that should be sufficient. Then click on the **Search** button.
- A list (probably long) of charities will appear. By clicking the ▲ triangle link at the top of the list, you can sort the organizations alphabetically by Name, City, State, etc. Scroll down until you find the one you're looking for.
- Once you find the line for the charity you are searching for, on the far right click the **link** under *Deductibility Status*. For example, if the status is PC, the organization is a public charity (the most common kind). You can make deductible donations of up to 50% of your adjusted gross income (AGI) to one or more public charities. AGI is the number at the bottom of your Form 1040, Page 1. It includes all your income items and subtractions for certain deductible items such as IRA contributions, alimony paid to an ex-spouse, and self-employed health insurance premiums, etc. If the organization's status is SOUNK, it is an organization that supports a public charity. You can make deductible contributions of up to 50% of AGI to such organizations. If the status is PF, the organization is a private foundation. You can make deductible contributions of up to 30% of AGI to one or more private foundations. Contact us for details if you have questions on the deduction limitations that apply to charitable contributions.

It is not necessarily a deal-breaker if an organization is not on the IRS-approved list. For example, some churches and church-related organizations may not appear on the IRS website's list of tax-exempt organizations because they are not actually required to apply to the IRS for tax-exempt status. For a non-church organization, not being on the IRS-approved list doesn't necessarily mean it's not IRS-approved, but serious skepticism is appropriate. If you're still considering a contribution, ask the organization to send you a copy of the IRS determination letter that recognizes its tax-exempt status.

It's smart to be skeptical about making significant contributions to organizations that claim to be tax-exempt organizations. Taking the steps outlined in this letter is probably a good idea even if you don't care about a tax write-off. If you have questions or want more information about deducting charitable contributions, please contact us.