

IRS 2016 Tax Updates



Stakeholder Liaison Field

Fall 2016

Topics

- Extensions
- Sec. 179 Expensing
- Due Dates
- Refundable Credits
- Tuition Reporting
- New ITIN rules
- Health Care Law Changes
- Inflation Adjustments
- Emerging Scams - Data Breach



IRS

Permanent Extensions

Tax Relief for Families and Individuals

Enhanced portions of credits

- Earned Income Tax Credit (IRC § 32)
- Child tax credit (IRC § 24)
- American Opportunity tax credit (IRC § 25A)



Permanent Extensions

Tax Relief for Families and Individuals

- **Educator expenses:** Deduction for certain expenses of elementary and secondary school teachers (IRC § 62(a)(2)(D))
—Indexed for inflation
- **Sales taxes:** Deduction of State and local general sales taxes (IRC § 164(b))



Permanent Extensions

- Research credit. (IRC § 41)
- Employee wage credit for employees who are active duty members of the uniformed services. (IRC § 45P)
- Exclusion of 100 percent of gain on certain small business stock (IRC § 1202(a)(4))
- Military housing allowance exclusion for determining whether a tenant in certain counties is low-income. (IRC § 142(d)(2)(B)(ii))

Permanent Extensions

Incentives for Charitable Giving

- Tax-free distributions from individual retirement plans for charitable purposes.
(IRC § 408(d)(8))
- Special rule for contributions of capital gain real property made for conservation purposes. (IRC § 170)
- Basis adjustment to stock of S corporations making charitable contributions of property.
(IRC § 1367 (a))



Section 179 Expensing

- \$500,000 limit and \$2 million reduction threshold made permanent and indexed for inflation
- Allowance for depreciable software made permanent
- Now allowed for air conditioning and heating units
- Election can be revoked (but once revoked, it becomes irrevocable)

Temporary Extensions

Bonus depreciation provisions extended 5 years

- 50% through 2017
- 40% 2018
- 30% 2019

Expansion of election to accelerate AMT credits in lieu of Bonus Depreciation extended through 2019

Temporary Extensions

Extended through 2019
Credits

- New Markets Tax Credit
- Work Opportunity Tax Credit
- Energy Credits

Temporary Extensions

Extended through 2016

Credits (continued)

- Exclusion from gross income of discharge of qualified principal residence debt
- Mortgage insurance premiums deductible
- Tuition and fees deduction

Return Filing Due Dates

Due dates for 1120 and 1065 series

- For tax years beginning after 2015, the due date for a domestic corporation to file its Form 1120 has changed to the 15th day of the 4th month following the date its tax year ended.
- For tax years beginning after 2015, the due date for a domestic partnership to file its Form 1065 has changed to the 15th day of the 3rd month following the date its tax year ended.

Return Filing Due Dates

Form W-2 and some Forms 1099-MISC

- The due date for filing 2016 Forms W-2, with the SSA is now January 31, 2017, whether you file using paper forms or electronically.
- Form 1099-MISC to be filed on or before January 31, 2017, when you are reporting nonemployee compensation payments in box 7. IRC 6071(c)

Due Date for 1040 filers is April 18, 2017



IRS

Refundable Credits

Some refunds must be held until Feb. 15

- No credit or refund for an overpayment ... shall be made to a taxpayer before Feb. 15 if the taxpayer claimed the Earned Income Tax Credit or Additional Child Tax Credit on the return.

IRC §6402(m)



Refundable Credits

- SSN for Earned Income Credit
- TIN for Child Tax Credit and American Opportunity credit
- Expanded Due Diligence -CTC, ACTC, AOTC
- Taxpayers with improper claims in prior years
 - 2 Year limitation – reckless or intentional disregard
 - 10 Year limitation - fraud



Tuition Reporting (1098T/8863)

- Higher education information reporting of qualified tuition on Form 1098-T
- Employer Identification Number (EIN) from Form 1098-T reported on Form 8863

New ITIN Rules — Form W-7

- Documentation required for new Individual Taxpayer Identification Numbers (ITINs)
- Older ITINs will expire if not renewed
- Newer ITINs will expire if not used, unless renewed
- Form W-7 (Revision Sept. 2016)
- IRS will no longer accept passports of dependents as stand-alone documents that lack a date of entry into the United States.

IRC 6109



New ITIN Acceptance Agent 2016 Program Changes

- Certification Process Changes
- ITIN Acceptance Agent Applications Accepted Year Round
- Certifying Acceptance Agent Recruitment

ACA Update

- Individual Shared Responsibility Payment increases
- Health Insurance Marketplace Open Season November 1, 2016 to January 31, 2017

[IRS.gov/ACA](https://www.irs.gov/ACA) or [HealthCare.gov](https://www.healthcare.gov)



Strengthening ID Verification on the Self-Prepared Return

- Taxpayers must use prior-year AGI or prior-year Self Select PIN to verify e-signature
- No changes to Practitioner PIN Method
- Electronic Filing PIN no longer an option for self-prepared returns

Taxpayer Assistance Center Appointment-Service

- All Taxpayer Assistance Centers will provide service by appointment by the end of 2016.
- Many questions can be resolved online without visiting a TAC.
- TACs offer personal tax help when a taxpayer's tax issue cannot be handled online or by phone.
- Use the office locator on IRS.gov to see if your local TAC is participating in the appointment process.
- Call 1-844-545-5640



IRS

Sharing Economy Resources

- IRS worked in conjunction with the National Taxpayer Advocate
- Created the Sharing Economy Resource Center on IRS.gov
- Web page designed to help taxpayers involved in sharing economy meet tax obligations

Taxpayer Digital Communication

- Correspondence Examination Pilot Program
- Correspondence examinations-Schedule A
- On-line web-based secure portal to upload and transmit supporting documentation
- Invitations will be sent to correspondence examination Schedule A cases for pilot program
- Begins 1st quarter of FY 2017

Waiver of 60 Day Rollover Requirement - Rev Proc 2016-47

- Provides guidance concerning waivers of the 60-day rollover requirement
- Provides for a self-certification procedure that may be used by a taxpayer claiming eligibility for a waiver
- Provides a self-certification model letter in the appendix of Rev Proc 2016-47
- Taxpayers will submit the self-certification to a plan administrator or an IRA trustee



(Do NOT send self self-certification waiver to the IRS.)

Form W-2 Verification Code Initiative

Verification Code:

- 16 alphanumeric characters
- A unique code on each W-2, calculated using data on that form
- In a separate box, labeled "Verification Code," on copies
 - B ("To be filed with employee's federal tax return")
 - C ("For employee's records")

W-2 Instructions: Verification Code:

- If this field is populated, enter this code when it is requested by your tax return preparation software. It is possible your software or preparer will not request the code. The code is not entered on paper-filed returns.



Free tax prep at irs.gov/freefile		freefile	
Employee Reference Copy		2015	
W-2 Wage and Tax Statement			
<small>OMB No. 1545-0045</small>			
<small>d Control number</small>	<small>Dept.</small>	<small>Corp.</small>	<small>Employer use only</small>
216543 ROSE/ABC	100	AABB	A 223
<small>c Employer's name, address, and ZIP code</small>			
ACME SUPPLIES CORPORATION 15 CENTER STREET ANYTOWN, USA 12345			
Batch# 00001			
<small>e/f Employee's name, address and ZIP code</small>			
JANE HARPER 101 MAIN STREET ANYTOWN, USA 12345			
<small>b Employer's FED ID number</small>	<small>a Employee's SSA number</small>		
12-1233336	999-99-9999		
<small>1 Wages, tips, other comp.</small>	<small>2 Federal income tax withheld</small>		
32937.80	2560.00		
<small>3 Social security wages</small>	<small>4 Social security tax withheld</small>		
35037.60	2172.34		
<small>5 Medicare wages and tips</small>	<small>6 Medicare tax withheld</small>		
35037.60	508.05		
<small>7 Social security tips</small>	<small>8 Allocated tips</small>		
<small>Verification Code</small>		<small>10 Dependent care benefits</small>	
<small>11 Nonqualified plans</small>	<small>12a See instructions for box 12</small>		
	C 37.80		
<small>14 Other</small>	<small>12b D</small>		
31.20 SDI	2100.00		
500.00 AUTO	<small>12c DD</small>		
	8543.00		
	<small>12d</small>		
	<small>13 Stat emp.</small>	<small>Ret. Plan</small>	<small>3rd party sick pay</small>
	X		
<small>15 State Employer's state ID no.</small>	<small>16 State wages, tips, etc.</small>		
NY 12-1233336	32937.80		
<small>17 State income tax</small>	<small>18 Local wages, tips, etc.</small>		
1163.35	32937.80		
<small>19 Local income tax</small>	<small>20 Locality name</small>		
751.60	NYC RES		

Form W-2 Verification Code Initiative

Filing Season 2016:

- We tested the capability of a 16-digit verification code to validate Form W-2 data submitted with e-filed Forms 1040. We worked with four payroll service providers (PSPs) and many 1040 software products.
- The data from 1.5M Forms W-2 from pilot EINs were included with e-filed Forms 1040.
- After the return processed, IRS independently calculated the VC for these W-2s, using the data on the form and compared it with the code the taxpayer entered.
- When the taxpayer/preparer input the VC, the validation success rate was over 94 percent.



Form W-2 Verification Code Initiative

Filing Season 2017:

- We are expanding that test to 50 million W-2s involving multiple payroll service providers and software products.
- Increasing the number and types of W-2 issuers
- Increase the number of payroll service providers to include smaller issuers
- Include large federal organization (National Finance Center)
- While returns without VCs will not reject, we ask payroll professionals associated with PSPs/employers participating in the initiative to encourage employees to enter the VC at the prompt in 1040 software.
- IRS will test using the validated VC results in such a way that, if the VC is a match, we'll accept the W-2 data submitted with a 1040 to be valid and reduce false positives.
- The IRS will be determining the future use of the VC during FS 2017. Help us get it right.



Hurricane Matthew Flood Victim Provision

- Employees can elect to forgo vacation, sick, or personal leave in exchange for cash payments that the employer makes to charitable organizations.
- Notice 2016-55 provides guidance for income and employment tax purposes on the treatment of cash payments made by employers under leave-based donation programs for the relief of victims of the Hurricane Matthew.

Notice 2016-55

Hurricane Matthew Flood Victim Provision

- 401(k)s and similar employer-sponsored retirement plans can make loans and hardship distributions to Hurricane Matthew flood victims and members of their families.
- Retirement plans can provide this relief to employees and certain members of their families who live or work in the disaster area. To qualify for this relief, hardship withdrawals must be made by Jan. 17, 2017.

IRS Announcement 2016-30



Disaster Resource (IRS.gov)

- Disaster Relief Resource Center for Tax Professionals
 - Click on the Bulk Requests from Practitioners for Disaster Relief

Other Changes

- Form 1040 Items
- Schedules A, D, SE
- AMT
- Form 8835: Renewable Energy, Refined Coal and Indian Coal Production Credit
- Form 8839: Qualified Adoption Expenses

Emerging Scams

- Phishing emails posing as IRS e-Services
- Phishing emails posing as new clients
- Spoofing emails to payroll personnel requesting all employee Forms W-2
- Remote takeover of tax preparer computers
- Variations constantly emerge
- Know your clients; know your employees

Protect your EFIN

- IRS reviewing improvements to EFIN safeguards
 - Stepped up efforts to expel EFIN abusers;
 - Increased on-site visits as part of monitoring process
- EFIN holders should review return numbers during filing season
 - e-Services Account updated weekly
 - Excessive numbers can be reported to



Steps to Protect Client Data

- Read Publication 4557, Safeguarding Taxpayer Data
- Review current security measures
- Create a security plan
 - Use top-notch software security
 - Educate all employees
 - Use strong passwords
 - Secure Wi-Fi
 - Encrypt PII emails
 - Backup files

Plan Ahead for Data Loss

- Create a reaction plan for data theft
 - Call IRS Stakeholder Liaison (found on IRS.gov)
 - Notify your State Tax Agency
- Review Federal Trade Commission's "Business Center" to assist businesses with data losses
 - Notify police
 - Notify businesses



IRS—Notify clients

Data Breach

- Hacker identifies a computer using remote access software (Logmein / Gottomypc).
- Hacker uses password defeating software (Bruteforce / Passwordcracker) gains access to the remote access software.
- Once the hacker gains access to the remote access software they generally gain access to the tax practitioner's entire computer system and its contents.

Data Breach

Hacker accesses tax software and transmits stolen client data to their own server or hard drive.

- Uses stolen data and off the shelf tax software to file false “self-prepared” tax returns.
- Uses stolen data and professional tax software to file false tax returns using the preparer’s stolen EFIN.

Hacker takes control of the computer and uses practitioner’s EFIN, computer, tax software and client data to file false returns.

How does the breach happen?

Hacking a practitioner's computer system via the practitioner's remote access software.

- Strong password not used to protect remote access software
- Not limiting number of password attempts
- Not limiting number of hours remote access software is allowed

How does the breach happen?

Hacking a practitioner's computer system via the practitioner's remote access software.

- Strong (secondary) passwords not used for operating system, tax software program or individual client tax files

Questions

- Do you use software that allows you to access your work computer from a remote location?
- Is that software password protected?
- Do you use a strong password? A strong password has a minimum of 12 alpha, numeric and special characters.
- Is your password timed out when it is repeatedly entered incorrectly?
- Is your remote access software restricted to the number of hours it is available during the day? For example from 7:00 a.m. to 11:00 p.m.



IRS

Other types of breaches

Physical thefts / social engineering

- Employees stealing client data
 - No background checks on new employees
 - Disgruntled employees / employees starting their own tax practices
- Smash and grab
- Sale of tax practice
 - No background check on perspective buyer. Granted unlimited access to tax info

How Data Breaches are Discovered

Tax preparers typically find out that they have a data breach in one of two ways:

- They e-file a client's tax return and the return rejects. The error code states that a return has already been filed.
- The preparer receives e-file confirmations for client tax returns they have not yet filed.

What else can happen?

- Hackers use stolen client data to open fraudulent bank accounts to receive fraudulent refunds.
- Hackers use stolen client data to apply for false PTINs.

Dealing with a breach

When a Breach Occurs preparers should:

- Call IRS e-Help Desk 866.255.0654
 - Cancel their old EFIN
 - Obtain a new EFIN
- Perform a deep scan of computer system
 - To prevent hackers from stealing the new EFIN as keystroke monitoring malware may already be on their computer.
- Contact Stakeholder Liaison



Reporting Data Breaches to SL

Practitioners should be prepared to provide some basic information relating to the incident:

- Date of incident
- How the incident was identified
- Preparer Name
- Preparer EIN
- Preparer PTIN
- Preparer Firm Name
- If applicable, listing of EFINs issued to the

Reporting Data Breaches to SL

In addition, practitioners / payroll service providers should be prepared to provide the following client information to either Stakeholder Liaison or Criminal Investigation:

- A complete listing of all client SSNs
- A complete listing of business client EINs

IMPORTANT: Please make sure that any information emailed to the IRS by tax practitioners / payroll service providers is encrypted or password protected. Otherwise this information should be sent via fax or e-fax.



IRS

IRS CID and data breaches

- CID will NOT be involved in all tax practitioner data breach cases.
- CID will only get involved in data breach cases that meet their criminal criteria.

Practitioner Data Breaches


- Constantly evolving threat
- International crime syndicates
- Costly for:
 - Taxpayers
 - Tax Practitioners
 - U.S. Treasury
 - IRS

Summary and Resources


- **www.irs.gov/draftforms** for early drafts of forms and instructions
- **www.irs.gov/taxmap** for tax research of forms, instructions, publications, articles, and pages on IRS.gov, all at once
- **www.irs.gov/irc** for the Internal Revenue Code and other guidance
- Pub. 5136: IRS Services Guide
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Forms & Instructions

- › 2014 Instructions for Form 940
- › 2014 Instructions for Form 945
- › 2014 Instructions for Form CT-1
- › More..


Publications

- › Publication 4169 (Rev. 7-2009)
- › 2015 Publication 15
- › Publication 4587 (Rev. 10-2014)
- › More..

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- A-Z Index for Business
- Avoiding Problems
- Deducting Expenses
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Hot Topics

[Same Sex Couples: Guidance for Employers](#)
Information for employers about the IRS ruling that same-sex couples, legally married in jurisdictions that recognize their marriages, are now treated as married for federal tax purposes.

[Outsourcing Payroll and Third Party Payers](#)
Many employers outsource some of their payroll and related tax duties to third-party payroll service providers. They can help assure filing deadlines and deposit requirements are met and greatly streamline business operations.

Worker Classification

[Worker Classification \(Independent Contractors vs. Employees\)](#)
Are you or your help independent consultants or employees? Before you can know how to treat payments you make for services, you must first know the business relationship that exists between you and the person performing the services.

[Voluntary Classification Settlement Program](#)
The Voluntary Classification Settlement Program (VCSP) is a voluntary program that provides an opportunity for taxpayers to reclassify their workers as employees for employment tax purposes for future tax periods with partial relief from federal employment taxes.

Employees and Employment Taxes

[Employment Taxes for Businesses](#)
This is the starting point on irs.gov for employment tax information. These links provide good, basic information on employment taxes and worker classification (independent contractors vs. employees).

Resources

- › Affordable Care Act Tax Provisions for Employers
- › Reporting Agents File (RAF)
- › Practitioner Local Liaison Meetings and Seminars
- › Small Business and Self-Employed Tax Center
- › Taxpayer Advocate Service

Forms and Publications

- › Draft Tax Forms
- › Employment Tax Forms
- › Employment Tax Publications

Tools



Additional Resources

- IRS Video Portal
- e-Help Desk at 1-866-255-0654
- QuickAlerts
 - ACA Calls
- Social Media
- Monthly payroll industry calls
 - First Thursday of each month
 - 1:00 p.m. Eastern

sbse.payroll@irs.gov



Contact Information

IRS.gov

Stakeholder Liaison Field – South Atlantic

