Client Update

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Is it always a good idea to amend your tax return?

You filed your tax return, you even received your refund check, and you had hoped to be done with taxes for the year. But, you discover a mistake on your return. What should you do? You will not need to complete a new Form 1040. Instead, file an amended tax return using Form 1040X. Before you decide if amending your return is the right course of action, here are some things to consider.

If you are due a tax refund

If correcting the error or omission will result in a substantial additional refund, usually your best option is to file the amended return. However, there some caveats.

- Federal tax returns are typically subject to audit for three years after the original tax return due date OR the date the return was filed, whichever is later. If you file an amended return, the audit clock may change based on the amended return filing date and type of change requested. It may trigger a request from the IRS to extend the audit review period. The refund also resets the IRS erroneous refund recovery statute, adding two to five years of possible review based on the date of your latest tax return refund.
- Amending a tax return could put a spotlight on your return. Amended returns based on things like the Earned Income Tax Credit (EITC), small business income, and the Research Tax Credit for small businesses, could result in a visit from your local IRS examiner. You will need to make sure you have the necessary records to substantiate your amended return.
- Amending one tax return may require you to amend other returns. Even a minor change may require you to make changes in other tax years. Ask yourself if it's worth the hassle.
- Making a change on your federal tax return may require you to file an amended state or local tax return, and that amendment may not necessarily work out in your favor.
- It can take some time for the IRS to review amended tax returns. While not typical, the process can take up to 1½ years to resolve.
- Timing is important. The deadline to file a 1040X is generally the later of three years after the original return for the year in question was filed, or two years after the tax for that year was paid.

If you owe additional taxes

If you discover that you made errors on your tax return that will result in an additional tax obligation, you are required to correct the errors and file an amended tax return, along with the tax that is due.

If the IRS discovers your tax error before you do, they will most likely add interest and failure-to-pay penalty fees to your tax bill. So the sooner you file the amended return and pay the tax that is the due, the better it will be for you.

While finding an error on your tax return can be unsettling, rest assured there are ways to fix the problem. Call so we can discuss a balanced approach to determine the best solution. ◆

Five home office deduction mistakes

If you operate a business out of your home, you may be able to deduct a wide variety of expenses. These may include part of your rent or mortgage costs, insurance, utilities, repairs, maintenance, and cleaning costs related to the space you use.

It can be a tricky area of the tax code that's full of pitfalls for the unwary. Here are some of the top mistakes people make.

1. Not taking it

This is probably the biggest mistake those with home offices make. Some believe the deduction is too complicated, while others believe taking a home office deduction increases your chances of being audited. While the rules can be complicated, there are now simple home office deduction methods available to every business.

2. Not exclusive or regular

The space you use must be used exclusively and regularly for your business.

Exclusively: If you use a spare bedroom as a business office, it can't double as a guest room, a playroom for the kids, or a place to store your hockey gear. Any kind of non-business use can invalidate the deduction.

Regularly: It should be the primary place you conduct your regular business activities. That doesn't mean that you have to use it every day, nor does it stop you from doing work outside the office. But it should be the primary place for business activities such as recordkeeping, billing, making appointments, ordering equipment, or storing supplies.

3. Mixing up your other work

If you are an employee for someone else in addition to running your own business, be careful in using your home office to do work for your employer. Generally, IRS rules state you can use a home office deduction as an employee only if your employer doesn't provide you with a local office where you can work.

Unfortunately, this means if you run a side business out of your home, you cannot also bring work home from your employer's office and do it in your home office. That would invalidate your use of the home office deduction.

4. The recapture problem

If you have been using your home office deduction, including depreciating part of your home, you could be in for a future tax surprise. If you later sell your home, you will need to account for this depreciation. This depreciation recapture rule creates a possible tax liability for many unsuspecting home office users.

5. Not getting help

There are special rules that apply to your use of the home office deduction if:

- You are an employee of someone else.
- You are running a daycare or assisted living facility out of your home.
- You have a business renting out your primary residence or a vacation home.

The home office deduction can be tricky, so be sure to ask for help, especially if you fall under one of these rules. ◆

Boomerang kids: problem or opportunity?

A mounting phenomenon is hitting America as an unprecedented number of young adults are returning home to live with their parents. The trend is becoming so well known that this population of today's young adults has been labeled, "the boomerang generation."

With high unemployment and record levels of college debt, young adults are struggling to make it on their own. This is coupled with a growing willingness of parents to help out financially and emotionally, something not as common in prior generations. In the 1940s, 18 year-olds were fighting wars in Europe or the Pacific. Today, they are often fighting to dig themselves out of a financial hole and their parents are increasingly ready to help.

So what to do if you find yourself in a boomerang situation? Here are suggestions that may turn a potentially uncomfortable situation into a rewarding experience.

Get to the root. Discover the boomerang adult's fundamental motive for returning to live at home to help set reasonable expectations. Trouble finding a job is one reason, but breaking up with a boyfriend or girlfriend is quite another. Is your child saving money for a new home? Is he or she going through a divorce? Trying to pay off debt? Perhaps your child just needs a little emotional stability.

Talk it over. Have a serious discussion before your child rejoins the household. Both parties need to make sure the return home will not stifle the child's motivation or professional career development.

Set expectations. Establish some important guidelines up front, such as the expected timeframe of the stay, how household duties will be shared, and what the curfew and guest policies will be. Decide if your child will pay rent or help with grocery and utility bills. If your child is attempting to reduce or eliminate personal debt, make it clear if and how much you are willing to help out. If appropriate, consider putting everything in writing.

While there are many inherent problems in a boomerang situation, there can be wonderful opportunities as well.

- Providing time to reconnect as adults.
- The boomerang adult can take the opportunity to develop marketability as an employee by taking an unpaid internship or volunteering to help others, without the worry of paying fully for his or her own home.
- The boomerang adult can save money for future goals.
- Parents get help around the house as they age.

There is a reason many cultures value the benefits of multi-generational living. The wisdom of experience is passed from one generation to the next and the healthy bond established between generations helps those of all ages. While it may be less common in the U.S., if managed properly, the boomerang experience could bring its own rewards. ◆

Mark Your Calendar

September 15

- Third installment of 2017 individual estimated tax is due.
- Filing deadline for 2016 calendar-year tax returns for S corporations with extensions of the March due date and partnerships with extensions of the April due date.

October 16

- Filing deadline for 2016 individual tax returns on automatic six-month extensions of the April due date.
- Deadline for filing 2016 calendar-year tax returns for C corporations with extensions of the April due date.
- Deadline for recharacterizing a Roth to a regular IRA.

During November

- Estimate your 2017 income tax liability and review your options for minimizing your 2017 taxes. Call to schedule a tax planning review.

Five questions to ask before paying off your mortgage early

Making extra principal payments to retire a mortgage before the end of a 15- or 30-year term may seem like a no-brainer. After all, who wouldn't want to reduce that substantial debt and dispense with monthly principal and interest payments? But paying off a mortgage early may not be the best choice for every household. Here are five questions to consider.

Do you have high-interest credit card or loan debt? If your credit card company is charging 15 percent on your outstanding balance, you can earn a guaranteed 15 percent by liquidating that debt. So it makes sense to pay off high-interest accounts first − before putting extra funds toward your low-cost mortgage. That's especially important if you're in a higher tax bracket. Home mortgage interest is tax deductible − interest on consumer debt is not.

Have you established an emergency fund? Life happens. If you haven't set aside funds in an easy-to-access "rainy day" account, you may be forced to acquire additional debt when life's inevitable troubles come along. Build up that emergency account to cover at least a few months of living expenses before supplementing your mortgage payments.

Are you contributing to a retirement plan at work? Many companies will match a certain percentage of funds contributed to a 401(k) retirement account. For example, your employer might match 50 percent of the money you contribute, up to a maximum of 6 percent of your salary. Don't pass up that offer. It's easy money, and it certainly earns a better return than dollars paid toward your mortgage principal.

Can you get a better return elsewhere? Of course the stock market is notoriously volatile, so paying off your mortgage may help you sleep at night. But if you can handle the risks of stock-based mutual funds or similar accounts, it may be prudent to invest at least a portion of your extra money there, especially if you won't need the money soon.

How's your cash flow? Before you retire from full-time employment and paychecks are replaced by social security payments, pensions, and/or retirement account withdrawals, run the numbers. Retiring without mortgage debt may be a wise financial goal for your family. But it's important to base your decisions on hard facts, not wishful thinking or uninformed advice.

Call us if you need help with this decision. ◆

CLIENT UPDATE: This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be easily summarized. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

How to be sure it's the IRS calling

Each year the IRS warns taxpayers of scams, many of which happen long after the tax season is over. Some taxpayers have encountered scammers who impersonate IRS officials in person, over the phone, or via email. Here are some ways for you to identify a real IRS employee.

- The IRS makes most contact with taxpayers through regular mail sent via the U.S. Postal Service.
- The IRS does not call to demand immediate payment using specific methods. If you owe taxes, the IRS will first mail a notice to you.
- The IRS does not threaten to involve law enforcement or immigration officials.
- The IRS will instruct you to make your payment to the United States Treasury.
- In the rare case that an IRS agent visits you, ask him or her to produce two forms of official credentials: a pocket commission and an HSPD-12 card.

If you receive contact from the IRS, please do not hesitate to call for help.

IRS-approved collection agency accused of illegal practices

Earlier this year, the IRS announced they would begin using outside collection agencies to collect overdue federal tax debt. One of these agencies, Pioneer Credit Recovery, was accused of suggesting risky strategies to indebted taxpayers, including withdrawing money from their 401(k), requesting a loan from their employer or taking out a second mortgage. While the IRS approves of Pioneer Credit Recovery's approach, the four senators who brought the allegations to light and IRS national taxpayer advocate, Nina E. Olson, disagree with such tactics. ◆

Over 65 real estate TAX SAVINGS for personal residence

It is almost that time of year. Alabama property taxes are due October 1st and delinquent after December 31st.

Fortunately, there is some good news to share. **If you are age 65 and over, you are exempt from paying state property taxes.** This homestead exemption also applies if you are permanently and totally disabled or blind, regardless of age.

For your property to qualify for the exemption, it must be a single-family residence and you must have occupied it on the first day of the tax year. There are additional county property tax exemptions that have income and tax assessed value limitations. Homeowners who have adjusted gross income of $12,000 or more on their Alabama Income Tax Return are eligible to have up to $2,000 of their property's tax assessed value to be exempt from county property taxes.

If you qualify, do not miss out on these exemptions, as the state does not allow for retroactive exemption status or a refund of previously unclaimed exemptions. In other words, if you qualified in prior years but failed to claim the exemption, you are eligible to benefit from the exempt status for the current and future years only. To apply for the exemption or for more information, visit your local tax assessor's office to complete the appropriate form. Once you have applied, you will receive a renewal notification annually for submission to the tax assessor.

Fill your IRA & 401(k) to the Brim

Some people say that 50 is the new 30.

Living longer and healthier lives might make your feel young if you are 50, but your retirement account begs to differ. Anyone who's turning 50 or older on or before December 31st can make retirement catch-up contributions starting that year. Catch up contributions can help you reach your retirement goals and yield big tax savings. *Consult with your tax advisor to see if this strategy makes sense for your situation.*