Tax Season: The Home Stretch

Roger Russell

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As we get into the final stretch of filing season, it is fulfilling the predictions made at the start.

“This filing season should be a doozy,” predicted Tom Wheelwright, a Scottsdale, Ariz.-based CPA. “Between the Affordable Care Act, the new Section 263(a) repair regulations and the inability of the IRS to answer the calls that come in, we are in for one challenging busy tax season.”

Wheelwright, a contributor both to Robert Kiyosaki’s Rich Dad seminars and Donald Trump’s Wealth Builder’s Program, found some solace in an Internal Revenue Service revenue procedure. “Thank goodness for Rev. Proc. 2015-20 that lets small business off the hook from filing 3115s this year to change accounting methods under the repair regs,” he said. “These challenges should give all tax preparers ammunition for suggesting to their clients that they extend their tax returns, evening out busy season for the preparer.”

“It’s been a challenging season, with the ACA, and the tangible property regs,” he said. “We knew they were out there and it would be a challenge, and it has.”

Padgett Business Services president Roger Harris referred to recent filing season statistics released by the Internal Revenue Service that show that the numbers are down over last year for taxpayers using professional preparers. According to the IRS cumulative statistics to March 7, 2015, e-filing using professionals was down by 4 percent from last year, while e-filing by self-preparers was up by 5.6 percent.

“I find it hard to believe that more taxpayers believe they can file their own tax return this season,” he said. “It’s more likely that the more complicated returns that require preparers are lagging behind, and they will catch up by the end of the season. They’ll come in later because of the amount of time needed to deal with each individual taxpayer.”

“People seem to be coming in later this year than they did in previous years,” agreed Cathy Mueller, director of operations of Richmond, Va.-based Peoples Income Tax. “Probably the more complicated returns are lagging because people don’t know what to do with the ACA form. Many of those that received letters about their Form 1095-As don’t know what to do, and if they think they may owe money, they have a tendency to wait until the last minute. And then there’s the theory that if Easter is late, people will file late.”

Some taxpayers have to pay part of their premium tax credit back, Mueller observed. “They’re surprised that they have to pay more than $95, which is what the news reports said, but it’s actually $95 or 1 percent of income, so it could be significantly more than the $95 amount,” she said. “When some of the people estimated what they thought their 2014 income would be, they based it on their 2012 income. When they estimated their income they used W-2 income, not realizing that when they went to the marketplace it’s not pretax, so they estimated their income too low.”

TRACKING PATTERNS

Weather has played a part in traffic to professional offices, according to Mark Steber, chief tax officer at Jackson Hewitt. “Some pundits say those numbers [showing self-preparers up while returns filed by paid professionals are down] are hard to explain. Well, it’s not hard for me to explain — it’s the weather! For a good part of the winter in much of the country people just couldn't get out to go to a tax professional."

"The patterns will normalize by the end of the filing season," he said. "This is not the big year that everyone moves to self-preparation."

"Our Wal-Mart numbers are good, because even with the cold weather, people still need to get out to get bread and milk and get to Wal-Mart," he said. (The company has 3,000 locations in Wal-Marts across the county.)

So far, the big story about the Affordable Care Act is that it's not really big news, according to Steber. "There are still stories of delays in Form 1095-As, but our clients are getting their statements from the marketplace exchanges, and their refunds are processing at a normal pace," he said. "It's been a pretty good experience with the ACA. We thought a lot more taxpayers would have to pay back the premium tax credit and have lower refunds. In fact, we spent time crafting messages and role training scripts for our training to soften the message, but we haven't experienced that. About half owe a little back, and half are getting even more credit. There's no real surprise other than there's a lot less bad news than we expected to have to deliver."

Steber advises preparers to pay special attention to major life changes: "We're seeing more questions from life changes than from tax law changes. They get married, divorced, have a child, take care of an elderly parent or take retirement withdrawals. The software doesn't always pick this up. The dependent care credit can be not just a child but a parent that needs care. It's not an uncommon script today that a parent moves in because they can't take care of themselves. They don't realize that that qualifies as a dependent."

"Just one missed or overlooked tax benefit that a preparer finds more than pays for the preparation," emphasized Steber.

NEW REGS

Just about everyone with business clients has had to deal with the tangible property regulations. "It has added a lot of time to return preparation, but there are substantial savings available," said Miguel Farra, CPA, chairman of the Tax and Accounting Department at Top 100 Firm MBAF.

"It has three major areas — routine maintenance, a safe harbor, and special treatment for 2014 for partial dispositions," he said.

"An example of a partial disposition is a replacement of the roof to a warehouse," said Rosa Bravo, a tax partner at MBAF. "Say the roof costs $500,000 and in your original cost of the warehouse you had an amount allocated to the roof, by doing certain computations you can allocate a certain amount of the cost of the building to the old roof and deduct that undepreciated amount."

"This requires the taxpayer to file Form 3115 for a change in accounting method," Farra said. "It is a change in accounting policy. The change is the election to treat the roof as a separate asset, whereas before it was treated as part of the whole warehouse."

"The relief for small-business taxpayers — taxpayers whose total assets are less than $10 million or whose average annual gross receipts for the past three years were $10 million or less — frees them from having to file Form 3115 with their tax return," said Kimberly Randolph, tax director and tax practice leader at Top 10 Firm CBIZ in Boca Raton, Fla. "However, if they are eligible and they elect not to file, they can no longer make a late partial disposition election. They can't write off any separately stated assets that were placed in service prior to 2014, and they won't have the opportunity in any future years to write off any items that they previously capitalized that would now be deductible as a repair expense."

"It's important to look at the implications of not filing," she cautioned.

Rob Grannum, a tax partner and partner-in-charge of the Everett, Wash., office of Top 100 Firm Moss Adams, agreed. "Despite the official numbers, we've been busier than normal this season, and a lot of that is attributable to the tangible property regs," he said. "It's been a big learning curve for our professionals and the profession in general. It's been a lot to absorb for this filing season."

"It was a good thing that the IRS came out with small taxpayer relief," he said. "But there are downsides to the relief provision. If you take advantage of it, you would forgo the opportunity to make a favorable retroactive partial disposition election, because 2014 is the only year that that's available. We're trying to help taxpayers balance the complexity of determining the deduction opportunity and changing their method of accounting, versus taking advantage of the small taxpayer relief provisions. You have to weigh both sides."

The ACA hasn't had much of an impact so far, according to Grannum. "We're hearing more from our business clients, and this will continue all year. They want to know what they need to do to comply with the law from a business standpoint."

"The whole tax season keeps getting more compressed," observed Vince Mattina, managing partner of Rochester, Mich.-based Mattina, Kent & Gibbons PC. "In the past, the season extended from January to mid-April. Now, with 1099s coming in late from the brokerage houses and the ACA forms released at the beginning of February, [it's compressed.]"

As an additional complication this year, the Center for Medicare and Medicaid Services said that they issued 800,000 incorrect Forms 1095-A, Mattina noted. "It causes more of a compression of the tax season. It's now down to six weeks, rather than the three months we used to have."

"The complexity added by the ACA has us as tax preparers become police officers for health care, because it affects every tax return that's filed," he said. "It continues to add time to tax preparation for the preparers to get the additional documentation needed to confirm that health care is being provided to all clients as well as their dependents."

Mattina estimates that it adds 10 percent to the time needed to prepare a return. "We notified our clients ahead of time that would be the case, and it's pretty much happening as we predicted," he said.

Randy Abeles, national lead for family wealth services at Top 6 Firm McGladrey, concurred. "Tax season is much more condensed than it used to be, as a result of the late issuing of 1099s by the brokerage houses," he said. "We had to wait until March 1 before we start working on the returns. A lot of our clients will have corrected 1099s, which also adds to the time."

"Every year, the brokerage houses have to supply more information on the forms," he said. "The preparer has to break things up into three different baskets on the return, so the return itself has gotten more complicated for the individual who has outside investments."

"States are becoming more aggressive as they're looking for more money," Abeles said. "So as people go into investments outside their resident states, the states are more aggressive in looking at those investments. And if you move to a different state, each state has its own rules you have to satisfy to give up residence in that state. States tha are losing people to low or no-tax states are going after them to make sure they follow the rules."

At the outset of the season, IRS Commissioner John Koskinen, noting that the service's budget has declined by more than $1.2 billion over the last five years, said it would reduce the amount of service that it could provide both taxpayers and practitioners during tax season. Such has proven to be the case, according to CBIZ's Randolph.

"This is my first busy season back from private industry," she said. "The cutback in the IRS budget has been extremely burdensome. In the past two weeks, I had to call the practitioner's hotline for taxpayers that had received notices, and in each instance the wait time was over two hours just to get an agent to pick up. You try to multi-task while you're on hold, but it is extremely time-consuming, and it is frustrating to have to explain to the client when you can’t get them answers.”