EJF ERIC J. FERNANDEZ & CO.

CERTIFIED PUBLIC ACCOUNTANTS
&
BUSINESS CONSULTANTS

895 W. Main Street
West Dundee, IL 60118
(847) 428-7400

1S443 Summit Avenue
Oakbrook Terrace, IL 60181
(630) 932-4880

420 N. Front Street
McHenry, IL 60050
(815) 344-7720

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TAX RULES FOR GAMBLERS

If you've done some gambling, you may need to know about the applicable federal income tax rules. They can be summarized as follows.

You must report 100% of your wagering winnings as taxable income on your Form 1040. The value of complimentary goodies ("comps") provided by gambling establishments must also be included in taxable income because comps are considered gambling winnings. These amounts are subject to your regular federal income tax rate, which can be as high as 39.6%.

If you itemize deductions, you can write off wagering losses on Schedule A of Form 1040. However, allowable wagering losses are limited to your winnings for the year, and any excess losses cannot be carried over to future years. Also, out-of-pocket expenses for transportation, meals, lodging, and so forth do not count as gambling losses and, therefore, cannot be written off at all.

If you qualify as a professional gambler, your wagering winnings and losses are reported on Schedule C of Form 1040. However, deductions for wagering losses are limited to your winnings, and any excess wagering losses cannot be carried over to future years (same as for amateurs). The good news here is that you can also deduct travel expenses and other out-of-pocket costs of being a professional gambler.

In any case, you must adequately document wagering losses (and out-of-pocket nonwagering expenses if you are a professional) to claim a deduction. The government says you must compile the following information in a log or similar record:

1. The date and type of specific wager or wagering activity.
2. The name and address or location of the gambling establishment.
3. The names of other persons (if any) present with you at the gambling establishment (obviously this is not possible when the gambling occurs at a public venue such as a casino, race track, or bingo parlor).
4. The amount won or lost.

For example, the IRS says you can document income and losses from wagering on table games by recording the number of the table that you played and by keeping statements showing casino credit that was issued to you. For lotteries, your wins and losses can be documented by winning statements and unredeemed tickets.

Last but not least, be aware that amounts you win may have to be reported to you on IRS Form W-2G (Certain Gambling Winnings). In some cases, federal income tax may have to be withheld, too. Anytime a Form W-2G is issued to you, the IRS gets a copy. So the government will expect to see the winnings show up on your tax return.

Please call us if you have questions or want more information on the tax rules for gambling activities. ■

TAX TIPS FOR FARMERS

Farms include ranches, ranges, and orchards. Some raise livestock, poultry, or fish and others grow fruits or vegetables. Individuals report their farm income on Schedule F (Profit or Loss From Farming). If you own a farm, here are nine tax tips you should know about:

1. **Crop insurance.** Insurance payments from crop damage count as income. Generally, you should report these payments in the year you get them.
2. **Sale of items purchased for resale.** If you sold livestock or items that you bought for resale, you must report the sale. Your profit or loss is the difference between your selling price and your basis in the item. *Basis* is usually the cost of the item. Your cost may also include other amounts you paid, such as sales tax and freight.
3. **Weather-related sales.** Bad weather such as a drought or flood may force you to sell more livestock than you normally would in a year. If so, you may be able to delay reporting a gain from the sale of the extra animals.
4. **Farm expenses.** Farmers can deduct ordinary and necessary expenses they paid for their business. An *ordinary expense* is a common and accepted cost for that type of business. A *necessary expense* means a cost that is proper for that business.
5. **Employee wages and benefits.** You can deduct reasonable wages and other compensation you paid to your farm's full- and part-time workers, including reasonable wages or other compensation you pay to your spouse if a true employer-employee relationship exists between you and your spouse. You must withhold social security, Medicare, and income taxes from their wages. You can also deduct the cost of benefits you provide to your full- and part-time workers (including your spouse if a true employer-employee relationship exists), such as medical insurance or contributions to a retirement plan.

You may be able to average some or all of the current year's farm income by spreading it out over the past three years.

6. **Loan repayment.** You can only deduct the interest you paid on a loan if the loan is used for your farming business. You can't deduct interest you paid on a loan that you used for personal expenses.
7. **Net operating losses.** If your expenses are more than income for the year, you may have a net operating loss. You can carry that loss over to other years and deduct it. You may get a refund of part or all of the income tax you paid in prior years. You may also be able to lower your tax in future years. However, if you don't actively participate in the farm activity, your losses may be limited.
8. **Farm income averaging.** You may be able to average some or all of the current year's farm income by spreading it out over the past three years. This may cut your taxes if your farm income is high in the current year and low in one or more of the past three years.
9. **Tax credit or refund.** You may be able to claim a tax credit or refund of excise taxes you paid on fuel used on your farm for farming purposes.

And, of course, we are always willing to help. If you have questions or want to discuss your specific situation, please give us a call. ■

WHAT YOU SHOULD DO WITH AN IDENTITY VERIFICATION LETTER FROM THE IRS

In its efforts to combat identity theft, the IRS is stopping suspicious tax returns that have indications of being identity theft, but contain a real taxpayer's name and/or social security number, and sending out Letter 5071C to request that the taxpayer verify his or her identity.

Letter 5071C is mailed through the U.S. Postal Service to the address on the return. It asks taxpayers to verify their identities in order for the IRS to complete processing of the returns if the taxpayers did file it or reject the returns if the taxpayers did not file it.

It is important to understand that the IRS does not request such information via email, nor will the IRS call you directly to ask this information without first sending you a Letter 5071C. The letter number can be found in the upper corner of the page.

Letter 5071C gives you two options to contact the IRS and confirm whether or not you filed the return: you can (1) use the *www.idverify.irs.gov* site or (2) call a toll-free number on the letter. However, the IRS says that, because of the high volume on its toll-free numbers, the IRS-sponsored website, *www.idverify.irs.gov*, is the safest, fastest option for taxpayers with web access.

Before accessing the website, be sure to have your prior year and current year tax returns available, including supporting documents, such as Forms W-2 and 1099. You will be asked a series of questions that only the real taxpayer can answer.

Once your identity is verified, you can confirm whether or not you filed the return in question. If you did not file the return, the IRS will take steps at that time to assist you. If you did file the return, it will take approximately six weeks to process it and issue a refund.

You should always be aware of tax scams, efforts to solicit personally identifiable information, and IRS impersonations. However, *www.idverify.irs.gov* is a secure, IRS-supported site that allows taxpayers to verify their identities quickly and safely. *IRS.gov* is the official IRS website. Always look for a URL ending with ".gov" — not ".com," ".org," ".net," or other nongovernmental URLs. ■

DONATING A LIFE INSURANCE POLICY TO CHARITY

A number of charities now ask their donors to consider donating life insurance policies rather than (or in addition to) cash in order to make substantially larger gifts than would otherwise be possible. The advantage to donors is that they can make a sizable gift with relatively little up-front cash (or even no cash, if an existing policy is donated). The fact that a charity may have to wait many years before receiving a payoff from the gift is typically not a problem, because charities normally earmark such gifts for their endowment or long-term building funds.

Of course, good reasons may exist for keeping the policy in force (such as to provide liquidity for a taxable estate or to meet the continuing needs of a surviving spouse or disabled child). Still, for individuals with both excess life insurance and a charitable intent, the donation of a life insurance policy may make sense.

If handled correctly, a life insurance policy donation can net the donor a charitable deduction for the value of the policy. A charitable deduction is also available for any cash contributed in future years to continue paying the premiums on a policy that was not fully paid up at the time it was donated. However, if handled incorrectly, no deduction is allowed. For this reason, we encourage you to contact us if you are considering donating a life insurance policy. We can help ensure that you receive the expected income or transfer tax deduction and that the contribution works as planned. ■

2015 HSA AMOUNTS

Health savings accounts (HSAs) were created as a tax-favored framework to provide health care benefits mainly for small business owners, the self-employed, and employees of small- to medium-sized companies.

The tax benefits of HSAs are quite favorable and substantial. Eligible individuals can make tax-deductible (as an adjustment to AGI) contributions into HSA accounts. The funds in the account may be invested (somewhat like an IRA), so there is an opportunity for growth. The earnings inside the HSA are free from federal income tax, and funds withdrawn to pay eligible health care costs are tax free.

An HSA is a tax-exempt trust or custodial account established exclusively for paying qualified medical expenses of the participant who, for the months for which contributions are made to an HSA, is covered under a high-deductible health plan. Consequently, an HSA is not insurance; it is an account, which must be opened with a bank, brokerage firm, or other provider (i.e., insurance company). It is therefore different from a flexible spending account in that it involves an outside provider serving as a custodian or trustee.

The 2015 maximum contribution and deduction for individual self-only coverage under a high-deductible plan is $3,350, while the comparable amount for family coverage is $6,650. Individuals age 55 or older by the end of 2015 are allowed additional contributions and deductions of $1,000. However, when an individual enrolls in Medicare, contributions cannot be made to an HSA.

For 2015, a *high-deductible health plan* is defined as a health plan with an annual deductible that is not less than $1,300 for self-only coverage and $2,600 for family coverage, and the annual out-of-pocket expenses (including deductibles and copayments, but not premiums) must not exceed $6,450 for self-only coverage or $12,900 for family coverage. ■

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