PEOPLES TAX SERVICE, INC.

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TAX SMART NEWSLETTER
HAPPY NEW YEAR!!!!

POINTS

Points are loan fees that are a specified percentage of the amount borrowed to pay to a lender out of the borrower's own funds to get a loan. If you satisfy the requirements they are deductible as interest only if they are solely for the use or forbearance of money and not a charge for services rendered. Prepaid interest are deductible only in the year to which the interest is allocable.

LIFE INSURANCE PROCEEDS

In general Life Insurance proceeds payable by reason of the insured's death are fully excludable from income.

PREMATURE DISTRIBUTION

If you receive a distribution(s) from your retirement account, funds are subject to a 10% penalty for early withdrawal. 10% penalties are imposed if you have not reached age 591/2 years old. There are a few exceptions to this penalty if you qualify. There is a need for extreme caution when you are contemplating withdrawing a large sum of funds from your retirement account. You will need to address your current perceived tax bracket to ensure the anticipated funds will not propel you to a much higher tax bracket, for if by chance it does you will be subject a high tax liability.

CANCELLATION OF DEBT

A debt cancelled by a lender, better known as a discharge of indebtedness can be taxable income, however if you satisfy the requirements most or all of it may not. According to a IRS code, generally gross income does not include COD (cancellation of debt) income if the discharge takes place in bankruptcy case, when the debtor is insolvent or the cancelled debt is a qualified principal residence indebtedness that is discharged before January 1, 2018.

RESIDENTIAL REAL ESTATE RENTALS

A taxpayer must include real estate rents in income and can deduct real estate rental expenses. Rental income includes rent, advance rent and the expenses that a tenant pays for a landlord. Rental income may also include the FMV of property or services received as rent. In a Lease with the Option to Purchase, rental payments are treated the same as rent paid under a lease that does not have an option to purchase. The landlord must include the rental payments in ordinary income. That income is offset by the landlord's rental expenses. A landlord can deduct rental expenses, such as utilities, cleaning, depreciation of assets, mortgage interest, repairs, maintenance, real estate taxes and possible others associated with the rental activity.

ENTITY TAX-EXEMPT STATUS

The term church is not specifically defined in the Internal Revenue Code. The term is used generically as a place of worship. Because special rules apply to churches, it is important to distinguish churches from other religious organizations. To qualify for tax-exempt status, a church or religious organization must be a legal entity separate from its owners. It must have a written articles of organization. A church or religious organization must be both organized and operated exclusively to meet Internal Revenue Service requirements. To qualify for tax exemption the church must be organized under state law as a corporation. Remember Churches are automatically considered tax exempt and do not have to apply for recognition of exempt status from the IRS. However, many churches apply for recognition of tax-exempt status because the recognition provides assurance to church leaders, member, and contributors that a church is exempt from taxation and is eligible to receive deductible contributions.

UNRELATED BUSINESS INCOME

The tax on unrelated business taxable income (UBTI) applies to most organizations exempt from tax under section 501(a), including charitable and religious organizations described in section 501(c) (3). Unrelated business income is income from a trade or business regularly conducted by an exempt organization and not substantially related to the organization's performance of its exempt purpose or function. A trade or business generally refers to any activity conducted with the intent to produce income from selling goods or performing services. An activity can be a trade or business even though it is conducted within a larger group of similar activities that may be related to the exempt purposes of the organization. Business activities of an exempt organization are generally considered regularly conducted if they show a frequency and continuity and are pursued in a manner similar to comparable commercial activities of nonexempt organizations. Certain activities of a religious organization or church are specifically excluded from the definition of unrelated trade or business which includes the following:

1. Any trade of business in which substantially all the work in carrying on such trade or business is performed for the organization without compensation.
2. Any trade or business carried on primarily for the convenience of its members, students, patients, officers or employees.
3. Any trade or business that consists of selling merchandise, substantially all of which the organization received as gifts or contributions.

CHURCH AUDITS

There are limits how and when the IRS may initiate and conduct civil tax inquiries and examination of churches. Commencing an inquiry, the IRS may began a church tax inquiry only when the appropriate high-level Treasury official reasonably believes, based on facts and circumstances recorded in writing, that the organization may not qualify for tax exemption as a church, carrying on an unrelated trade or business or engaged in activities subject to tax, income or withholding. The IRS can obtain the information supporting a reasonable belief from many sources, including newspaper or magazine articles or ads, including television and radio reports, reliable information reports from concerned members of the church or the general public.

CHARITABLE CONTRIBUTIONS

Taxpayers can claim a deduction for contributions to qualified charitable organizations. A charitable contribution is defined as a contribution or gift to or for the use of qualifying governmental entities or other qualifying governmental entities or other qualifying nonprofit organizations. To qualify for the deduction, a taxpayer must make a charitable contribution to or for the use of one of the following qualified organizations:

1. The US government, a state of the United States
2. A corporation, trust, or community chest, fund or foundation that is created or organized in or under the laws of any of the governments in item 1.
3. A post or organization of war veterans, organized in the United States or one of its possessions, including auxiliary units.
4. A domestic fraternal society, order, or association, operating under the lodge system, but only if such contribution or gift is to be used exclusively for religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals.

Contributions to political candidates, political parties, and lobbying organizations are not deductible. Generally, bar associations, chambers of commerce, civic leagues, country clubs, social clubs, homeowner's associations are not qualified organizations. A taxpayer can verify the nonprofit status of organizations at www.irs.gov/charities-nonprofits/exempt-organizations-select-check. It is better to use the employer identification to search for an organization.

Contributions to individuals are not deductible, including your minister.

ACCOUNTABLE REIMBURSEMENT PLAN-

An accountable plan is an employee reimbursement allowance arrangement or a method for reimbursing employees for business expenses that complies with IRS regulations. This type of arrangement will be great for Long Distance Truckers who are employees of Trucking Firms and Church Ministers as well, for it will help reduce taxable wages. Prior to the Tax Law Changes of 2018 employees were afforded the opportunity to write off employee business on Form 2106. The accountable plan also must include a procedure requiring employees to return excess reimbursements (those in excess of allowable amounts) to the employer. If an employer sets up and maintains an accountable plan, employee travel expenses do not have to be treated as taxable income.

GIVE YOUR CREDIT SCORE A BOOST

Your credit score is one of the most important aspects of your financial health. It is used by potential lenders, landlords and even employers to analyze your financial situation in one way or another. Here are some tips that might help you improve your score:

Review your credit report and, if necessary, fix errors. You are entitled to one free credit report from each credit reporting company per year at Annual Credit Report. It is important to check for reporting errors that could be negatively affecting your score. If you find an error, contact the company reporting the information and the credit reporting company to challenge the report. Common errors include closed accounts showing as open, incorrect balances or limits and accounts opened by someone else due to identity fraud.

Pay off your credit card each month. By making purchases on a credit card and paying the entire balance each period, you are developing a positive credit history and displaying sound financial management skills. This will increase your credit score. To meet this goal you will need to keep your spending under control. If you are unable to pay off the card, you will start to accumulate revolving debt that will hurt your credit score.

Make your payments on time. Late payments, even by one day, can be one of the most damaging hits to your score. If possible, set up automatic payments for as many bills as possible to lower the risk of forgetting to make a payment. The longer your history of paying on time, the more your score will improve.

Pay down your debt. Another large chunk of your credit score is calculated based on the amount of debt outstanding. Mortgage lenders specifically use a debt-to-income ratio to determine loan eligibility. In addition to the amount of debt you have, you also need to pay attention to the debt limits you have on your accounts. The closer your debt is to the limit, the worse your score will be.

Don't allow an account to go to collection. Collections will stay on your credit report for seven years! Avoid having any of your accounts go to collections if at all possible. Medical bills and other one-time expenses are often the types of accounts that find themselves in collections. If you are unable to pay a bill in full by the due date, call the company and see if they have payment plans or other programs to get the bill paid without going to a collection company.