



Contact Us:

Kramer & Jensen LLC
7430 E. Caley Ave, Suite 300E
Centennial, CO 80111
T 303-741-2253
F 855-330-4215
sjensen@kramerjensen.com

Newsletter

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Avoid penalties by keeping accurate information return records

Did you file all required information returns for 2015 and earlier years? Information returns include Forms 1099, the forms you complete when you pay for certain business expenses such as rent or services performed by an independent contractor. August is a good time to review your filing compliance because this is the time of year the IRS typically begins sending notices for prior year information returns with missing and incorrect taxpayer identification numbers, and the penalties for errors continue to rise.

If you get a notice, you may be able to get penalties waived by proving you acted in a responsible manner before and after the error. One way to do this is to document your request for a taxpayer identification number from the vendor or other payee. You may also need to begin withholding income tax known as backup withholding from payments. Contact us for more information.

The part-year withholding method can increase your paycheck

If you're starting your first job this fall, you probably want to avoid overpaying your federal income tax. Consider asking your employer to use a special formula known as the part-year withholding method to calculate the amount of federal income tax withheld from your wages. To be eligible, you have to use the calendar year as your tax year, and you must not expect to be employed for more than 245 days during the year.

Be Sure to Appropriately Document Noncash Charitable Contributions.

The Tax Court recently agreed with the IRS when it denied a couple's noncash charitable contribution deduction. The taxpayers attached the appropriate form 8283 to their tax return because their noncash donations deduction exceeded \$500, but they failed to get an appraisal, as required under the tax laws, for the total noncash donations which exceeded \$5,000. Some taxpayers are not aware of the rule requiring an appraisal if noncash contributions exceed \$5,000. Further, it is worth noting that the \$5,000 total is based upon the type of donations and not per trip to Goodwill, Salvation Army or other charity. The appraisal is required if your total hits \$5,000 of noncash contributions whether you dropped the goods off on one day or in ten trips over the course of the year at \$500 each and totaling \$5,000. Without the proper documentation you will lose your claimed charitable contribution deductions. One notable exception to the

Get organized and improve your business

The art of placing information in a logical order, more prosaically called organization, is key to the efficiency of your business, which can in turn increase productivity. Fortunately, you can master the art of organization by making habits out of simple techniques. Here are suggestions.

- Organize your tax records. Create a filing system to collect the documentation needed to take advantage of tax breaks, such as credits for hiring certain workers and accelerated depreciation methods for business assets. For example, for asset purchases, retain receipts, and make sure the details include the type of equipment, the date and amount of the purchase, the date you began using the equipment, and a schedule of additional related costs, such as set-up costs, that might be eligible for capitalizing. For ordinary deductible business expenses, such as car expenses, travel costs, professional magazines, meeting and association fees, and seminar and training expenses, establish an electronic or paper filing system to store receipts.
- Organize your electronic records. Is your email cluttered with so many messages you don't know where to look for what you need? Aim to make your inbox hold only the current day's emails. Delete non-critical emails. Electronically sort critical messages into folders to eliminate time-wasting searches. To reduce the daily deluge, cancel automatic messages that are no longer useful.
- Organize your paper records. Are your file cabinets - the ones that hold real paper - stuffed to overflowing? Review and shred outdated documents. If the information might be needed later, scan it into computer files. Consider using document management software. Organize your desk by shredding documents with sensitive information and scanning older papers into computer files. The most efficient method is to scan, file, and shred as soon as you are finished with a document. If you don't have time, consider assigning document organization to specific employees and making it a task to be completed on a daily basis.
- Organize your future. Address succession planning for your critical employees well before a crisis occurs. Document daily responsibilities, skills needed to complete essential tasks, and the location of all paper and electronic files. Appoint and cross-train backup staff.

You're already busy, and you may believe that organizing your records will take more time than you have. But think about why you feel as though your day is overloaded. Is one reason because you're spending your efforts searching through a disorganized office? In that case, mastering the art of organization may save you not only time, but money as well. Contact us for more suggestions.

Plan for the fate of your digital assets

An important step in estate planning is creating an inventory of your assets. Your executor - the person you designate in your will to carry out your last wishes - uses the inventory to make sure all of your property passes to your heirs. That includes your digital assets. Documenting these along with more traditional effects can help ensure your final wishes are honored and your estate is administered correctly. Here's what to keep in mind as you compile a list of your digital assets.

Passwords. In order to review financial accounts with banks, brokerages, or other businesses, your executor will need your current password. If you protect passwords with an encrypted program, include the master access key. Most importantly, keep your list updated when you

change passwords.

Be comprehensive. Add web addresses, user names, and passwords for non-financial accounts such as your email and online storage sites to your inventory. Why? These accounts can be essential for retrieving invoices, statements, and other paperwork for which you've chosen electronic-only delivery.

Remember the non-digital. The physical assets you use to access your digital data include your phone, tablet, and computer. For these assets, your executor will need passwords and file names. Also list the location and encryption information for off-site or standalone storage devices such as flash or other external drives.

Individual states are moving toward adopting laws that allow your estate representative to manage your digital assets. If your state has not yet taken steps to address the issue, you may be able to add wording to your will or have your attorney prepare an authorization for release of the information. In either case, keeping track of your online financial activity can make assembling an inventory of your digital assets a simple process. Please contact us for more information and tips.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We appreciate your referrals.

Scott Jensen
Kramer & Jensen, LLC

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Kramer & Jensen, LLC
sjensen@kramerjensen.com