Tax Update For 2014

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Overview

- Estate and Gift Tax Update
- Individual Tax Rate Changes
- Fixed Asset Rules
- Affordable Care Act (Healthcare Law)
- Ten Provisions that Expired in 2013
- Other Federal Tax Issues
- Tax Practice
- Texas Franchise Tax Update

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Estate and Gift Tax Update

- *Income tax* brackets: Beginning in 2013, top income tax bracket for estates and trusts is 39.6%
  - Electing small business trusts (ESBTs) 39.6% flat rate some income
- *Gift and generation-skipping transfer (GST):* 40% max tax rates
- *Exclusion amount*: $5.34 million for both Estate Tax and GST
  - Unified credit amount (the tax otherwise imposed on the exclusion amount) was $2,045,800 for 2013 and is $2,081,800 in 2014
- *Gift tax annual exclusion*: $14,000 for 2013 and 2014
  - $145,000 may be transferred to a noncitizen spouse free of gift tax

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Estate and Gift Tax Update (Continued)

- *Capital gains and qualified dividends*: 20% rate applies to estates and trusts with income above $11,950
  - 0% and 15% rates continue to apply to certain threshold amounts
- *Net investment income tax:* 3.8% tax applies to certain investment income of estates and trusts
  - Use Form 8960 (new for 2013) and its instructions to figure
- *Bankruptcy estate filing threshold:* Beginning in 2013, the requirement to file a return for a bankruptcy estate applies only if gross income is at least $10,000

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Estate and Gift Tax Update (Continued)

- *Qualified disability trusts:* For 2013, qualified disability trusts can claim an exemption of up to $3,900
  - Exemption decrease with MAGI above $250,000
  - No exemption is allowed with MAGI of $372,500 or more
- Rev. Proc. 2014-18: IRS provided a procedure to get automatic extension to elect estate tax portability exclusion for estates of decedents that died before January 1, 2014, and that fall below the dollar threshold for having to file an estate tax return

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Estate and Gift Tax Update (Continued)

- PLR 201403012: Estate tax payments not accelerated by change in form of doing business under Code §6166(a) where:
  - tax attributable to the estate's original closely held business interests
  - estate tax deferral was elected
  - distribution was pro rata of one or more properties from business to decedent's estate and interests
- Subsequent contribution of each property by same to LLCs will constitute distribution, sale, exchange, or other disposition of interest in closely held business under Code §6166(g)(1)

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Estate and Gift Tax Update (Continued)

- A court denied a net operating loss (NOL) carryover from terminated bankruptcy estate to debtor
- New Schedule PC, Protective Claim for Refund: preserves estate's right to a refund of estate taxes paid when a claim or expense that is the subject of unresolved controversy at the time of filing the return later becomes deductible
- Forms 706 and 709 include a new section and schedule, respectively, for portability

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Finalization of Form 1041

IRS finalized 2013 Tax Return for Estates & Trusts with draft instructions.

- *Item F. NOL carryback*: new NOL carryback check box in Item F of the heading
  - Check the box if an amended return is filed for an NOL carryback
- *Item G. Section 645 election:* If the estate has made a Code §645 election (an election to treat a revocable trust as part of the decedent's estate), executor must:
  - Check Item G and provide the TIN of the electing trust with the greatest assets
  - Attach a statement providing the following information for each electing trust: (a) Name of Trust, (b) TIN of Trust, and (c) the name and address of the Trustee

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Finalization of Form 1041 (Continued)

- *Net operating loss deduction (NOLD)*: IRS revised line 15b to report NOLDs (previously reported on line 15a)
- *Miscellaneous itemized deductions*: Miscellaneous itemized deductions subject to the 2% floor are now reported on new line 15c
- *Form 1041 E-filing*: For tax year 2013, both Form 8453-F, U.S. Estate or Trust Income Tax Declaration and Signature for Electronic Filing, and new Form 8453-FE, U.S. Estate or Trust Declaration for an IRS e-file Return, will be used for e-filing

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Individual Tax Rate Changes

A Comparison of 2013 & 2014 Income Tax Brackets

Married Filing Jointly

2013		2014	
Taxable Income	(tax rate)	**Taxable Income**	(tax rate)
$0 - $17,850	10%	$0 - $18,150	10%
$17,850 - $72,500	15%	$18,150 - $73,800	15%
$72,500 - $146,400	25%	$73,800 - $148,850	25%
$146,400 - $223,050	28%	$148,850 - $226,850	28%
$223,050 - $398,350	33%	$226,850 - $405,100	33%
$398,350 - $450,000	35%	$405,100 - $457,600	35%
$450,000 - and up	39.6%	$457,600 - and up	39.6%
Standard deduction	$12,200	Standard deduction	$12,400
Personal exemption	$3,900	Personal exemption	$3,950

Source: Tax Policy Center and the Internal Revenue Service

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Individual Tax Rate Changes – Top Rates

	2012	2013	With Healthcare 2013
Individual Rate	35%	39.6%	0.9% on excess wages
Capital Gains	15%	20%	+3.8%? = 23.8%
Dividends	15%	20%	+3.8%? = 23.8%

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High Income Phaseouts

	2013	2014	
Personal Exemption	>$300,000	>$305,050	2% for each $2,500
Itemized Deductions	>$300,000	>$305,050	Lesser of a) or b)
a) 3% of AGI above applicable amount, or b) 80% of the amount of itemized deductions for the year			
Does not apply to medical expense, investment interest, casualty/theft, or gambling loss deductions			

Some Inflation Adjusted Amounts

	2013	2014	
Mileage Rates			
Business	56.5¢	56.0¢	
Medical	24¢	23.5%	
401(k) maximum contribution	$17,500	$17,500	Unchanged
Catch-up (age 50)	$23,000	$23,000	Unchanged
IRA maximum contribution	$5,500	$5,500	Unchanged
Catch-up (age 50)	$6,500	$6,500	Unchanged

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Social Security & Medicare Withholding

	2013	2014	
Social Security			
Employer	6.2%	6.2%	Unchanged
Employee	6.2%	6.2%	Unchanged
Wage Base Limit	$113,700	$117,000	
Medicare			
Employer	1.45%	1.45%	Unchanged
Employee	1.45%	1.45%	Unchanged

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New Medicare Taxes

- Affect "high-income" taxpayers
  1. Medicare on wages increases by 0.9%. IRS requires withholding when wages exceed $200,000. Tax imposed on employee only, not the employer; however, the employer is responsible for remitting tax
  2. Medicare tax on an individual's unearned income:
     - Medicare tax is 3.8% on the *lesser* of:
       - Net investment income (NII) (i.e., interest, dividends, annuities, royalties, rents, capital gains and any other passive income); OR
       - The excess of modified adjusted gross income (MAGI) over the applicable "threshold amount" ($250,000 for MFJ).
       - Not subject to 3.8% if meet two tests:
         1. Income is derived in the ordinary course of a trade or business; and
         2. Not from a passive activity (taxpayer materially participates).

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0.9% Additional Medicare Tax

IRC §3102(b)(2) – Additional Medicare Tax

- In addition to FICA's 6.2% (OASDI) and 1.45% (HI), an additional Medicare tax equal to 0.9% of wages received with respect to employment shall be imposed above threshold amount
- Effective during any taxable year after December 31, 2012

Threshold Amounts:

- Joint Return Filers = $250,000
- Married Filing Separate = $125,000
- Any other case, i.e. Individual = $200,000

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0.9% Additional Medicare Tax (Continued)

IRC §3102(f) – Special withholding rule for additional 0.9% tax

- Withholding applies only to wages paid in excess of $200,000 (employer disregards wages received by taxpayer's spouse)
- To extent that tax is not collected (or deducted) by employer, tax shall be paid by employee
- If an employer fails to deduct and withhold the additional tax **and** the tax is **paid by employee**, the IRS will not collect tax from employer
- Employer remains subject to any penalties or additions otherwise applicable for failing to deduct and withhold

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0.9% Additional Medicare Tax (Continued)

Prop. Reg. §31.3102-4(c) – Employer's Liability for Tax

- If employer deducts less than correct amount or fails to deduct any part of the Additional Medicare Tax, it is nevertheless liable for the correct amount that it is required to withhold until employee pays tax

Employer Remains Liable for Failure to Withhold

- Even if employer is not liable for Additional Medicare Tax, an employer that does not meet withholding, deposit, reporting, and payment responsibilities is liable for all applicable penalties and additions to tax

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0.9% Additional Medicare Tax (Continued)

- Employers must withhold on wages paid over $200,000 – no discretion even if employee knows he will not meet threshold filing jointly
- Employers report Additional Medicare Tax withheld on Form W-2 and Form W-3 in Box 6 by combining all Medicare tax (1.45% + 0.9%)
- Overpayments resulting from employer withholding will be claimed as a credit by taxpayers on their individual Form 1040
- Individuals liable for Additional Medicare Tax will calculate additional tax on their Form 1040s

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0.9% Additional Medicare Tax (Continued)

Examples:

Illustration: (1) H has wages of $250,000 and W has wages of $100,000 in 2013. H's employer withholds 6.2% of FICA up to $113,700, 1.45% of total, and an additional 0.9% on $50,000. W's employer does not withhold additional tax.

(2) H and W both work for employer and each earn $150,000. Employer does not withhold additional tax on either one.

Illustration: A received $180,000 in wages through November 30, 2013. On December 15, 2013, his employer pays him a $50,000 annual bonus. Employer is required to withhold 0.9% on $30,000 of the $50,000 bonus, and may not withhold on the other $20,000.

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3.8% Additional Medicare Tax

IRC §1411 – Unearned Income Medicare Contribution Tax

- Applies to individuals for each taxable year equal to 3.8% of the **lesser of**:
  - NII for such taxable year, or
  - Excess of MAGI for such taxable year over the threshold amount
- Applies to estate or trust for each taxable year equal to 3.8% of the lesser of:
  - Undistributed NII for such taxable year; or
  - Excess of AGI for such taxable year over dollar amount of highest tax bracket for such taxable year (i.e. 2013, > $11,950; 2014, >$12,150).
- Effective during any taxable year after December 31, 2012

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3.8% Additional Medicare Tax (Continued)

Net Investment Income

- Defined as the excess (if any) of the sum of:
  1. GI from interest, dividends, annuities, royalties, and rents that is **not derived in the ordinary course of a trade or business**
  2. Other (passive) income derived in the ordinary course of business
     - Businesses trading financial instruments or commodities
     - Businesses considered passive activities to taxpayers
  3. Net gain attributable to the disposition of non-business property
     - Gains from sale of stock, bonds, ETFs, and mutual funds
     - Capital gain distributions from mutual funds
     - Gain from sale of investment real estate

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3.8% Additional Medicare Tax (Continued)

Examples of Income Not Subject to Additional 3.8% Tax:

- Wages
- Unemployment
- Active business income and self-employment income
- Social Security
- Alimony
- Tax-exempt interest
- Distributions from qualified retirement plans, 401(k)s, or IRAs

- For trusts, the additional 3.8% tax does not apply to:
  - Trust with unexpired interests devoted to charitable purposes
  - Tax-exempt trusts under §501

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3.8% Tax – Material Participation

Quantitative Tests

1. > 500 hours
2. Participation constitutes substantially all the participation in such activity of all individuals (including individuals who are not owners of interests in the activity) for such year
3. Participation > 100 hours and is not less than participation of any other individual (including individuals who are not owners of interests in the activity) for such year;
4. Significant participation activity (SPA) and aggregate participation in all SPAs during year > 500 hours

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3.8% Tax – Material Participation (Continued)

Prior Year MP Tests

5. MP in any five prior tax years (whether or not consecutive) during prior ten years

6. Personal service activity and individual materially participated in the activity for any three prior tax years (whether or not consecutive)

Facts and Circumstances Test

7. Based on all facts and circumstances, individual participates in the activity on a regular, continuous, and substantial basis during the year

NOTE: *Material participation is determined annually*

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3.8% Tax – Material Participation (Continued)

Disregarded Entity

- Determination of whether passive income is made at the individual owner level

Partnerships, LLCs, and S Corporations

- If individual owns an interest in a trade or business through one or more passthrough entities, the determination whether allocated income is from a passive activity is made at the individual level

Grouping Passive and Nonpassive Activity

- IRS is allowing taxpayers to “re-group” their similar activities and test hours contributed on a combined basis

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3.8% Tax – Real Estate Professional

- In order to be treated as a real estate professional, you must satisfy two tests:
  1. More than one-half of the your personal services performed throughout the year must be performed in real property trades or businesses in which you materially participate, and
  2. You must perform more than 750 hours of services during the year in real property trades or businesses in which you <u>materially participate</u>
- Real property trades and businesses include development, construction, acquisition, management, rental operations, or brokerage.

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3.8% Tax – Self-Rental Income

- Self-rental income is net income from property that a taxpayer rents for use in a trade or business in which the taxpayer materially participates.
- Preamble for the 2012 proposed regulations warned that self-rental income characterized as nonpassive under Code Sec. 469 may be considered passive under Code Sec. 1411.
- Final regulations effectively exclude self-rental income from the new 3.8% tax if such income is considered nonpassive (i.e. active) income under Code Sec. 469 rules.
- Important because many business owners separate real estate and active business operations for liability reasons.

Bonus & Section 179 Depreciation

	2013	2014	
Bonus	50%	N/A	
New tangible property with recovery period of 20 yrs or less			
Section 179			
Maximum deduction	$500,000	$25,000	
Maximum investment limit	$2,000,000	$200,000	
Luxury Auto - §280F limit	$11,160	$3,160*	
* CCH prediction which assumes bonus not extended			

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Fixed Asset Repairs and Maintenance Regulations

- Generally effective January 1, 2014
- All businesses likely will be affected by the tangible asset regulations
- Taxpayers will need to review current capitalization policies/methods
- Many taxpayers will need to file method changes for 2013 or 2014
  - Compute section 481(a) adjustments if applicable
- Changes might have financial statement implications (deferred taxes)
- Companies may need/want to make changes to fixed asset accounting systems
- Automatic method changes under Rev. Proc. 2011-14
  - In lieu of national office copy, file copy of Form 3115 with Ogden, UT service center

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Fixed Assets Repairs Regs – De Minimis Rule

Unit of Property (UOP) may be expensed[1], subject to ceiling, if taxpayer:

- Has applicable financial statement (AFS)
- Has written AFS capitalization policy in effect at beginning of year
- Expenses de minimis amounts on AFS pursuant to capitalization policy

[1] *Does not apply to land or inventory*

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Fixed Assets Repairs Regs – De Minimis Rule (Continued)

- Ceiling for aggregate de minimis deduction
  - Less than or equal to greater of:
    - 0.1% of federal tax gross receipts **OR**
    - 2.0% of total depreciation/amortization expense on AFS
- Can deduct de minimis costs up to ceiling amount
  - Can elect to capitalize any unit of property (UOP) in year placed in service
- Can reach agreement in IRS exam to exceed ceiling
- Apply member-by-member in consolidated group

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Fixed Assets Repairs Regs – De Minimis Rule (Continued)

- Taxpayer with applicable financial statements and $500 capitalization policy
  - Ex. 1: Buys 10 printers, $200 each = $2,000 expensed on AFS
    - Assume meets ceiling
      - Deduct $2,000 for tax
  - Ex. 2: Buys 400 computers, $400 each = $160K expensed on AFS
    - Assume ceiling is $140K based on tax gross receipts and book depreciation test
      - Cannot deduct $160K for tax
      - Can elect to:
        - Capitalize $20K (50 of the 400 computers) and
        - Deduct $140K (350 of the 400 computers)

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Fixed Assets Repairs Regs – Unit of Property for Buildings

- UOP is the building and its structural components
  - To determine if UOP is improved, look at each of the following:
    - Building systems
      - Heating, ventilation, and air conditioning systems (HVAC)
      - Plumbing systems
      - Electrical systems
      - All escalators
      - All elevators
      - Fire protection and alarm systems
      - Security systems
      - Gas distribution systems
      - Other structural components identified in published guidance
    - Building structure, which is defined as the building and its structural components (other than the sub-systems above)

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Fixed Assets Repairs Regs – Building Example

- Office building with HVAC system
  - Ten roof-mounted units
    - Separate controls and duct work
  - Taxpayer pays for labor and materials for work performed on roof-mounted units
    - Costs capitalized if improved the building structure or any designated building system
      - HVAC system, including all roof-mounted units and components, comprises a building system
        - Improvement to HVAC system may be improvement to building

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Fixed Assets Repairs Regs – Routine Maintenance Safe Harbor

- Routine and recurring amounts paid to keep UOP in ordinary, efficient working condition do not improve the UOP
- Only applies if taxpayer reasonably expects to perform activity ***more than once*** during UOP's ADS class life

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Fixed Assets Repairs Regs – Dispositions of MACRS Property

- Dispositions of MACRS property include:
  - Sale or exchange
  - Retirement
  - Physical abandonment
  - Destruction (including casualty)
  - Transfer to supplies, scrap, or similar account
  - Involuntary conversion
  - ***Retirement of a structural component of a building***
- Must recognize dispositions of components of buildings
  - Consider implications for restoration rules
  - Consider electing General Asset Account
- May recognize dispositions of components of personal property
  - Must apply componentization consistently

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Fixed Assets Repairs Regs – General Asset Accounts (GAA)

- Election to treat one or more assets in a single GAA
  - Each account can only include assets with same MACRS recovery period, convention, and placed in service year
  - Cannot combine assets for which bonus depreciation was claimed with those for which bonus not claimed
    - Cannot combine different bonus depreciation percentages
  - Can elect for a single building
- No gain or loss on disposition of an asset or component of an asset in GAA until all assets/components disposed
  - Election available to treat an asset/component as a separate asset

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Fixed Assets Repairs Regs – GAA Example

- Company A discovers leaks in roof of office building and replaces the entire roof

Single Asset Account	GAA - general	GAA – qualifying disposition election
Stop depreciation of basis in original roof	Continue depreciation of basis in original roof	Stop depreciation of basis in original roof
Recognize loss	No loss recognition	Recognize loss
Capitalize and depreciate cost of new roof	Capitalize and depreciate cost of new roof	Capitalize and depreciate cost of new roof

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Affordable Care Act

- Mandatory Coverage for Individuals
  - Minimum essential coverage, or penalty lesser of 1% of excess of HH income over gross income or $95 for 2014
  - Refundable tax credit for low and moderate income families who buy certain health insurance through an exchange
  - Marketplace in effect – open enrollment ends March 31
  - Coverage for pre-existing conditions plus lifetime limits eliminated (except for grandfathered individual policies)

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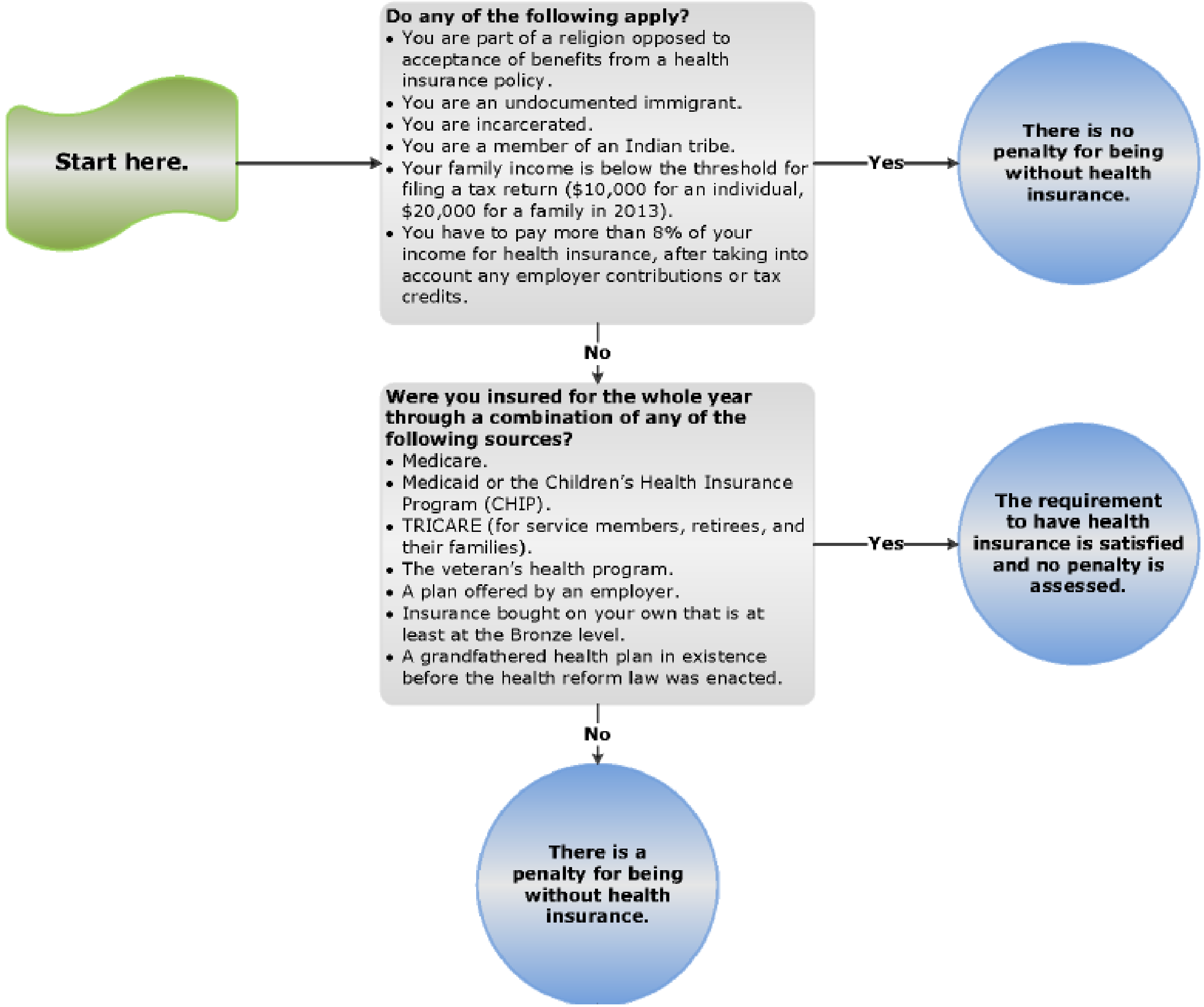
The Requirement to Buy Coverage Under the Affordable Care Act Beginning in 2014



There is a penalty for being without health insurance.

2014	2015	2016 and Beyond
Penalty is $95 per adult and $47.50 per child (up to $285 for a family) or 1.0% of family income, whichever is greater.	Penalty is $325 per adult and $162.50 per child (up to $975 for a family) or 2.0% of family income, whichever is greater.	Penalty is $695 per adult and $347.50 per child (up to $2,085 for a family) or 2.5% of family income, whichever is greater.

Income is defined as total income in excess of the filing threshold ($10,000 for an individual and $20,000 for a family in 2013). The penalty is pro-rated by the number of months without coverage, though there is no penalty for a single gap in coverage of less than 3 months in a year. The penalty cannot be greater than the national average premium for Bronze coverage in an Exchange. After 2016 penalty amounts are increased annually by the cost of living.

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Key Facts:

- **Premiums for health insurance bought through Exchanges would vary by age. The Congressional Budget Office estimates that the national average annual premium in an Exchange in 2016 would be $4,500-5,000 for an individual and $12,000-12,500 for a family for Bronze coverage (the lowest of the four tiers of coverage that will be available).**
- **In 2012 employees paid $951 on average towards the cost of individual coverage in an employer plan and $4,316 for a family of four.**
- **A Kaiser Family Foundation subsidy calculator illustrating premiums and tax credits for people in different circumstances is available at http://healthreform.kff.org/subsidycalculator.aspx.**

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Affordable Care Act

- Small Business Health Insurance Credit
  - Change from 2013 – Coverage must purchased through SHOP to be eligible for credit
  - SHOP marketplace will not be online until sometime in 2014, but SHOP is available through certain brokers.
- Employer mandate (nondeductible coverage and non-coverage penalties) was delayed to 2015

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Patient-Centered Outcome Research (PCOR) Fee

- **What is the Patient-Centered Outcome Research (PCOR) Fee?**
  – Fee paid by specified health insurance companies and sponsors of self-insured health plans
- **Why is it paid?**
  – To help fund the PCOR Trust Fund, which is used to fund the PCOR Institute
- **What is the purpose of the PCOR Institute?**
  – To conduct research on the effectiveness of various medical treatments
  – To provide research results to health care providers for use in evaluating the effectiveness and risks of various treatment and procedure options

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PCOR Fee – Which Plans Are Subject to the Fee?

- **The fee applies to the following self-insured plans**
  - Accident and Health Plans/Major Medical Plans
  - COBRA
  - Health Reimbursement Arrangement (HRA)
  - FSA (in very limited circumstances)
- **The fee does <u>not</u> apply to the following self-insured plans**
  - Stand alone dental or vision plans
  - Health Savings Account (HSA)/Archer Medical Savings Account (MSA)
  - Accident-Only Plans (such as AD&D Plans)
  - Workers' Compensation
  - Disability Plans
    - Not all inclusive lists

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PCOR Fee – How to Determine Covered Lives

Three methods to calculate the number of covered lives

- **5500 Method**
  - Use the number of covered lives at the beginning and end of the plan year as reported on Form 5500
- **Snap Shot Method**
  - Pick a date in each quarter and count the number of lives covered
    - Actual Method
    - Factor Method
- **Actual Count**
  - For each day in the plan year, count the number of covered lives, and then use the average

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PCOR Fee – How Much is the Fee?

- Plan Years Ending October 1, 2012 to September 30, 2013
  - $1 Per Covered Life
- Plan Years Ending October 1, 2013 to September 30, 2014
  - $2 Per Covered Life
- Plan Years Ending October 1, 2014 to September 31, 2019
  - Indexed for inflation annually for 5 years

PCOR Fee – What to File? When to Start Filing

- File Form 720 – Quarterly Federal Excise Tax Return
  - Second Quarter Return Only
    - File annually, even though the form name says “quarterly”
  - Due Each July 31
- Plan year-end date October 1, 2012 through December 31, 2012
  - Should have already filed by July 31, 2013
- Plan year-end date January 1, 2013 through December 31, 2013
  - File by July 31, 2014

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Ten Provisions that Expired in 2013

- State and local sales tax deduction
- Mortgage insurance premium deduction (only 2012 and 2013)
- Teacher classroom expense deduction of $250
- Exclusion of cancellation of debt for foreclosure or short sale of a principal residence
- Credit for qualified energy improvements to principal residence
  - But residential energy credit is still available for hot water heaters and solar and wind turbine energy through 2016

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Ten Provisions that Expired in 2013 (Continued)

- Credit for qualified plug-in electric drive motor vehicles
- Exclusion for up to $100,000 of income for IRA donated to qualified charity by taxpayer aged 70-1/2 and older
- Work Opportunity Tax Credit (WOTC)
  - Hire a Hero Act would extend WOTC into 2014
- Research & Development (R&D) tax credit
- New Markets Tax Credit

TOTAL: 55 provisions

– Tax Extender Bill: SB 1859 Chance of passage?

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Other Federal Tax Issues

- *U.S. v. Windsor,* 570 U.S. 12, 133 S.Ct. 2675 (2013): SC struck down Section 3 of the Defense of Marriage Act that required same-sex spouses to be treated as unmarried for federal law purposes
  - Rev. Proc. 2013-17: IRS issued guidance on definition of marriage for federal tax purposes
- Simplified Home Office Deduction: (1) $5 per square foot of home office space, and (2) maximum 300 square feet
- 2013 and 2014 income threshold of $115,000 for the definition of a “highly compensated employee”
- IRS delayed to 2014 implementing FICA guidance on employers’ treatment of tips and service charges (*U.S. v. Quality Stores Inc.*)

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Other Federal Tax Issues (Continued)

- *Knappe v. U.S.* (9th Cir. 4/4/13): Court found that an estate executor's reliance on an accountant, which caused a delay in filing the estate tax return, wasn't a sufficient basis to abate the estate's late filing penalty

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Tax Practice Update

- Tax Return Preparer Registration
  - *Loving v. Comm'r* argued at US Court of Appeals Sept. 24, 2013
  - Dist. Judge permanently enjoined enforcement in Jan. 2013
- IRS will no longer prepare tax returns at local offices
- Practitioner Priority Service Hotline is only for preparers
- Employer Identification Numbers (EINs) will only be issued online

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Tax Practice

- IRS Technology Updates
  - New “Get Transcript” service for individual taxpayers coming in 2014
  - “Where’s My Refund” web tool
  - IRS2Go mobile app, Version 4

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Mandate to Confirm All EINs with the IRS

- **Applies to** anyone with an EIN on or after January 1, 2014

- **What to do** – once the IRS finalizes the forms and instructions, and after 1/1/14, submit updated information on the name and social security number (or taxpayer identification number or EIN) of the responsible party for that entity.

- **Responsible party** is generally defined by the IRS as "the individual with the authority to control, manage, or direct the entity and the disposition of its funds and assets."

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Mandate to Confirm All EINs with the IRS (Continued)

- **The purpose** of the new rule is to:
  - Allow the IRS to maintain accurate information on responsible parties
  - Prevent delays in resolving tax matters because the IRS will have correct contact information for responsible parties
  - Reduce tax abuse

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Texas Gross Margin Tax Rate Change

- HB 500 allows for a reduced tax rate for two years
- Temporary Permissive Alternate Rates for 2014
  - Taxpayer may elect a 0.975% tax rate (instead of a 1% tax rate)
  - Only for 2014 report year (accounting period 12/31/2013)
- Temporary Permissive Alternate Rates for 2015
  - Taxpayer may elect a 0.95% tax rate (instead of a 1% tax rate)
  - Only for 2015 report year (accounting period 12/31/2014)
  - At Comptroller's discretion, budgetary needs must be met
    - Will provide guidance in 2014

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Texas Gross Margin Tax Rate Change (Continued)

- Added a new method to calculate gross margin
  - Computations of Margin
    - Lesser of;
      - 70% of Total Revenue
      - Total Revenue minus greater of;
        - $1 million (new); or
        - COGS; or
        - Compensation

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Questions

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