CHAN CPA & COMPANY, INC.

Business, Financial, & Tax Services

AUGUST 2018 NEWSLETTER

Tax Filing Reminders

- **September 15** –
  - Third quarter installment of 2018 individual and corporation estimated income tax is due.
  - **S corporations:** Filing deadline for 2017 tax returns for S corporations on extension
- **October 15** – Filing deadline for 2017 individual or corporation tax returns that requested/received a six-month extension. If you have not filed yet please provide your support documentation as soon as you can so we can complete the returns timely.

Is it Worth It to Amend Your Return?

Whether it makes sense to amend your return depends on which of these situations you're in:

Do you owe the IRS

If you discover an omission on your tax return that results in you owing additional tax, you need to correct it with an amendment and provide the tax due. Don't delay if this is your situation. If the IRS discovers the omission before you do, they may add interest and penalties to your bill.

If you are due a refund

If you find a mistake that should result in getting a larger refund check, you can claim it by filing an amended return. But there are several reasons it may not be worth it.

It may open a can of worms. In many cases, amending your federal return means also amending your state returns. Multiply the hassle if the error spans across two or more years.

It puts a spotlight on you. While your original return may have passed through the IRS's automated system without a hitch, now that it's amended you can virtually guarantee it will get a closer look. If you have anything else in your return that can trigger an audit, like business deductions, charitable donations, or other credits, this can be a concern.

It may take a long time to get a refund. The IRS tries to process your original return within three weeks. No such luck for an amended return. It can take several months to get an amended return processed and see that extra refund, even as long as 1Â½ years in rare cases.

It stretches out the audit window. The IRS generally has a three-year window to audit returns and request changes. When you file an amendment, you extend the audit time frame.

It may be too late. Depending on when you notice an error and how far it goes back, it may be too late. The deadline to file an amendment is generally the later of three years after the original return was filed, or two years after the tax for that year was paid.

Ultimately you have to weigh the extra money you could get from amending against the potential problems it could cause. If it's worth it, get an amendment filed, but remember if you amend your Federal return you must also amend your state return.

Student Loan Forgiveness Creates New Tax Trap

There's a new student loan repayment program that forgives some student loan debt if other payments are made. This new debt forgiveness is creating a tax surprise for the unsuspecting student.

The debt forgiveness program dilemma

To combat the hardship of high student loan debt, a popular new repayment option is the income-based repayment plan. These plans limit monthly payment amounts to a percentage of discretionary income. They also limit the number of repayment years. If your loan is not paid by a pre-determined future date and you've been making the payments as agreed, the balance of the loan is forgiven.

The Trinity Building
16450 Los Gatos Blvd. Suite 101
Los Gatos, CA 95032

(Ph) 408-358-1591
(Fax) 408-356-1481
www.chancpa.com

While the prospect of having a portion of the debt canceled is enticing, it can create an unexpected tax burden if you are not prepared.
Here's why it may be a problem:

- Canceled debt is considered taxable income.
- A 1099-C is issued to you and the IRS.
- Taxes are due at filing.

Before you begin to worry about a surprise tax bill, consider your other options:

- Tax-exempt debt forgiveness programs
- Insolvency exclusion
- IRS repayment plan

Dramatic Sales Tax Change

The U.S. Supreme Court issued a ruling in the South Dakota vs Wayfair case that opens the door for states to impose sales tax on sellers outside their borders. The case highlights a new standard of business presence called "economic nexus" that may have major implications for businesses and consumers alike.

Economic nexus explained
The exact definition varies, but in general, economic nexus makes a connection between a taxing authority (usually a state) and a seller based on certain sales or transaction levels. The Supreme Court agrees with South Dakota that having economic presence is enough to require an out-of-state retailer to register with the state to collect and remit sales tax. For example, the state of South Dakota mandates that if a retailer has $100,000 in annual in-state sales or has 200 separate in-state sales transactions over the previous 12 months, they must collect sales tax on all sales in South Dakota.

What it means for businesses

New, lower threshold for tax exposure: Sales tax nexus was mostly determined by physical presence. If a business has an office or employee located in a state, they likely were required to collect tax on sales in that state. The economic nexus standard removes the physical presence requirement with this ruling. Businesses now may need to compare sales-by-state data to the individual state economic nexus laws to determine whether they have a sales tax obligation in that state.

More tax registrations & filings: Businesses that sell outside their state may need to register in many more states – maybe all 50. With more registrations come more compliance management and more sales tax returns that need to be filed on an ongoing basis. The impact on workload for sales tax staffs could be huge.

Increased audit potential: With each new state registration comes a new potential audit authority. Sales tax audits almost always bring in additional revenue for states, so they will be looking to capitalize on the increased registrations. Sales tax compliance management is more important than ever and could lead to state income tax changes.

Thought for the month:
As the sun warms the sand, so a smile warms the heart. Emerson P. Davis

This newsletter provides business, financial, and tax information to clients and friends of our firm. General information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us to schedule a meeting or teleconference so we can clarify any questions you may have.