

# TaxTips

Keeping You Informed • Winter 2016 - 2017

**Tax On Wheels, LLC**

"We Come To You"

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*This newsletter is an informational supplement for our clients. It is not designed or intended to be tax, legal or investment advice. It is not intended or written to be used and cannot be used by the taxpayer for the purpose of avoiding tax penalties. We have made efforts to ensure that the information contained in this newsletter is accurate at the time of publishing. However, we do not warrant that the information contained herein is suitable for any purpose. Tax laws, and the interpretation of their meaning, may change over time. This material is written to appeal to the broadest possible range of interests and may not be applicable to your personal situation. Our intent is to stimulate thought and discussion of factors that may or may not impact you personally. If you feel that you need assistance with the issues raised within this publication, we are available to assist you on an individual basis. Please contact us at 803 732-4288 to obtain assistance.*

## The Rise of Identity Theft and Tax Scams

### How to avoid being a victim

Each year, tax scams seem to run more and more rampant, making proper security and privacy protocols critically important. According to the Bureau of Justice statistics, approximately 1 in 18 Americans have their identities stolen each year. With such a consistent rise in identity theft and tax scams, it's imperative that you keep your information safe and secure from criminals, not only in a work setting but also in your personal life.

The most common form of identity theft is the use of personal information to fraudulently obtain government benefits and tax refunds. There are a variety of ways identities can be stolen, such as by accessing existing financial accounts, creating new accounts with stolen credentials, through internet services and by social impersonation.

The consequences of identity theft can be devastating and can cause an array of financial losses. Scammers can gain access to accounts that access money, including bank accounts, retirement accounts, investment accounts and PayPal accounts. This can ultimately affect your credit score, which can take years of hard work

to restore. When dealing with credit score damage, getting financing for anything can be virtually impossible. It can affect major purchases (home mortgage, auto loans, college tuition) and lines of credit (home improvement or furniture, clothing or jewelry purchases).

Here are some methods often used by scammers:

- **Scare tactics.** Sophisticated hoaxers try to scare people into making immediate payments. They may threaten arrest, deportation or the revocation of your driver's license or professional license if you don't pay. Emails from scammers will often contain a fake IRS document with a phone number or email address to reply to.
- **Caller ID spoofs.** Scammers are known to alter caller IDs to make it appear that the IRS is calling. Callers will use IRS titles and fake badge numbers to appear legitimate. They may use online resources to get your personal information to make the call sound official.
- **Fake IRS letterhead.** Scam artists will copy official IRS letterhead to use in email or regular mail sent to victims.

Keep in mind, the IRS will never:

- Call you about your tax bill without first sending you a bill in the mail.
- Demand that you pay taxes and not allow you to question or appeal the amount that you owe.
- Require that you pay your taxes a certain way. For instance, require that you pay with a prepaid debit card or any specific type of tender.
- Ask for credit or debit card numbers over the phone.
- Threaten to bring in police or other agencies to arrest you for not paying.
- Threaten you with a lawsuit.

-continued on page 4



## Eligibility Requirements for Two Popular Tax Credits

*IRS requires me to ask you more questions*

In an effort to prevent taxpayers from improperly claiming the Child Tax Credit (CTC) and American Opportunity Tax Credit (AOTC), the IRS is implementing additional preparer due diligence requirements and requesting preparers to verify more information from clients who may be eligible to claim these credits. Because of these new requirements, I'll be asking more questions to verify your eligibility. Following are some of the "tests" I'll use to determine whether you qualify.

The CTC is a tax credit that may be worth as much as \$1,000 per qualifying child, depending on your income. To qualify for this credit, a child must pass these six tests:

- **Age Test.** A child must have been under age 17 at the end of 2016.
- **Relationship Test.** The child must either be your son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister or a descendent of any of these individuals, which includes your grandchild, niece or nephew.
- **Support Test.** The child must not have provided more than half of his or her own support.
- **Dependent Test.** You must claim the child as a dependent on your federal tax return.
- **Citizenship Test.** The child must be a U.S. citizen or national, or a resident of the U.S., Canada or Mexico.
- **Residence Test.** Generally, the child must have lived with you for more than half of 2016.

The AOTC is a credit for qualified education expenses paid for an eligible student for the first four years of higher education. You can get a maximum annual credit of \$2,500 per eligible student. To be eligible for this credit, the student must:

- Be pursuing a degree or other recognized education credential.
- Be enrolled at least half time for at least one academic period beginning in the tax year.
- Not have finished the first four years of higher education at the beginning of the tax year.
- Not have claimed the AOTC or the former Hope credit for more than four tax years.
- Not have a felony drug conviction at the end of the tax year.

In addition to the eligibility requirements above, there are also income limits for claiming these credits. I can help you determine whether your income qualifies you for these credits.

## No Click Policy

*Your security is more important than your convenience*

In the past we have accepted documents however clients chose to send them, including through insecure email attachments. Due to the increased security awareness emphasized by the IRS we are no longer accepting insecure email attachments. This new policy not only protects Tax On Wheels, LLC, it also protects you from yourself. Attaching tax documents to an email has never been a good idea. In the current security environment it is just plain wrong.

The newly instituted IRS efforts to close off all of the avenues normally used to commit identity theft means the scammers will be looking for the next best path of least resistance. We are determined to make sure the path does not include your emails. Emails and their attachments can easily be intercepted by scammers. To overcome this risk, in the past, we encrypted and password protected your documents before emailing them to you. A determined hacker can now easily defeat the password protection on an attachment. Email attachments are also a favored delivery method for computer viruses. Consequently, we simply are not going to send or receive tax documents via insecure email.

To be clear, emails with documents attached are a computer security risk and an identity theft risk. Therefore, attachments will not be opened. We offer 4 ways to provide your tax documents to us. Please use only these methods:

1. Upload to our secure document portal at <http://taxonwheels.com/secure-client-portal/>  
You must contact us to receive a password and userid in order to have to access the portal.
2. Fax to our newly reinforced fax number at (803) 753-9897.
3. Send via US postal mail to Tax On Wheels, LLC, PO Box 2447, Irmo SC 29063-7447.
4. Hand the documents to us in a face to face meeting (additional service call fees may apply).



## IRS Relaunches IP PIN Tool

*Things to keep in mind if you were a victim of identity theft*

The IRS has relaunched the Get an Identity Protection Personal Identification Number (IP PIN) tool with a stronger authentication process to help protect taxpayers. An IP PIN is given to taxpayers who are confirmed identity theft victims and to certain taxpayers who opt into the program. The six-digit IP PIN adds an additional layer of protection for the social security number.

The relaunched tool uses a multi-factor authentication process that will help prevent automated attacks. If you are a confirmed identity theft victim or have opted into this program, keep an eye out for an IP PIN notice in the mail. Also, remember to provide me with this notice when you receive it.

In addition, if you were or believe you may have been a victim of identity theft in early 2016, here are some tips to help you prepare for the next tax season:

- Check credit reports.
- If you moved, be sure to file your change of address with the IRS using Form 8822.
- File early in 2017.

## Paying Your Taxes in Cash

*IRS offers new cash payment plan*

The IRS announced a new payment option for individual taxpayers who need to pay their taxes with cash. In partnership with ACI Worldwide's OfficialPayments.com and the PayNearMe Company, individuals can now make payments at over 7,000 7-Eleven stores nationwide without needing a bank account or credit card.

Individuals wishing to take advantage of this payment option should visit the IRS.gov payments page, select the Cash option in the Other Ways You Can Pay section and follow the instructions. Here are a few things to keep in mind when using this feature:

- Taxpayers will receive an email from OfficialPayments.com confirming their information. This may take 2–3 days.
- Once the IRS has verified the information, PayNearMe sends the taxpayer an email with a link to the payment code and instructions.
- Individuals may print the payment code provided or send it to their smart phone, along with a list of the closest 7-Eleven stores.
- The retail store provides a receipt after accepting the cash, and the payment usually posts to the taxpayer's account within two business days.
- There is a \$1,000 payment limit per day and a \$3.99 fee per payment.

Because PayNearMe involves a three-step process, the IRS urges taxpayers choosing this option to start the process well ahead of the tax deadline to avoid interest and penalty charges.

If you owe taxes, here are a few additional tips and options you'll want to keep in mind:

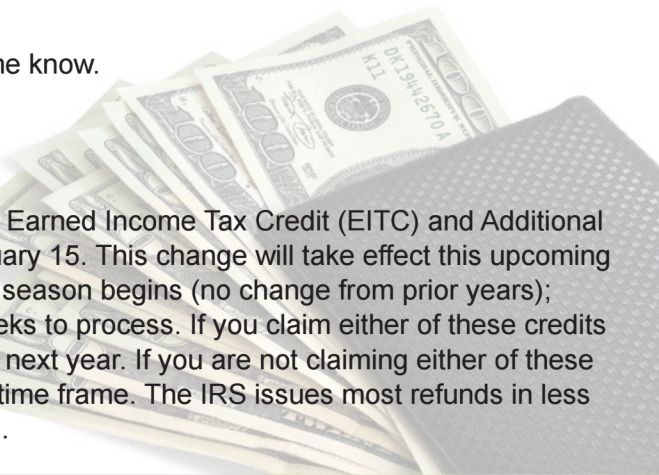
- Pay your taxes in full. This will ensure that you avoid interest and potential penalties for late payments.
- The safest and easiest way to pay your taxes is through the IRS Direct Pay online option.
- If you owe more tax than you can pay, you may qualify for extra time (up to 120 days) to pay in full.
- An offer in compromise may allow you to settle your tax debt for less than the amount due. Certain restrictions apply, but it's worth checking out if paying your tax bill in full could cause financial hardship.
- Employees can avoid a tax bill by having more taxes withheld from their pay. To withhold more taxes, you'll need to file a new Form W-4 with your employer.

If you have any questions about your payment options, please let me know.

## IRS To Delay Certain Refunds

*Important info for those claiming the Earned Income Tax Credit*

Per the recently enacted PATH Act, refunds for returns claiming the Earned Income Tax Credit (EITC) and Additional Child Tax Credit (CTC) will not be released from the IRS until February 15. This change will take effect this upcoming tax season. The IRS will start processing tax returns once the filing season begins (no change from prior years); however, returns claiming the EITC or CTC may take up to four weeks to process. If you claim either of these credits and usually file early, plan on a slight delay in receiving your refund next year. If you are not claiming either of these credits and are entitled to a refund, you can expect it in the normal time frame. The IRS issues most refunds in less than 21 calendar days. If you have questions, please give me a call.



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More than anything, it's important to remember to never give away personal information by phone or email to an untrusted or suspicious source. If you have any questions on how you can protect yourself from identity theft, please let me know.

## **Independent Contractors and Taxes**

*The difference between contractors and employees*

It's vital for all employers to properly distinguish between what constitutes an employee and an independent contractor in order to ensure that everyone receives the proper tax treatment.

Independent contractors are generally defined as those who are in an independent trade, business or profession in which they offer services to the general public. These individuals have control over the work they do and how it will be done. The business owner has the right to control or direct only the result of the work. On the other hand, an employee is generally defined as an individual who performs services for you. As the employer, you can control what will be done and how it will be done.

Generally, employers must withhold income taxes, withhold, match and pay Social Security and Medicare taxes, and pay unemployment tax on wages paid to employees. Business owners do not

generally have to withhold or pay any taxes on payments made to independent contractors.

Form W-9, *Request for Taxpayer Identification Number and Certification*, and Form 1099-MISC, *Miscellaneous Income*, are necessary components of working with an independent contractor. Once you've determined that an individual you are paying is an independent contractor, you'll need to have him or her complete a Form W-9. Be sure to keep the independent contractor's W-9 in your files for four years or longer, in case any questions arise from the worker or the IRS. Form 1099-MISC is most commonly used by employers to report payments made in the course of a trade or business to others for services. If you paid someone who is not your employee \$600 or more for services provided during the year, a Form 1099-MISC needs to be completed and provided to the independent contractor by January 31 of the year following payment.

If you have questions relating to independent contractors, please give me a call.

