

THE MORRISSEY REPORT

www.johnmorrisey.com

Spring 2016



From the Desk of John F. Morrissey

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We hope you enjoyed our recent special edition of The Morrissey Report.

We were glad to put the spotlight on the terrific individuals that make up our accounting and tax practice. It is a helpful reminder to all of us that the PEOPLE we work with are the backbone of our experience with any organization. We thank you for your patronage with John Morrissey

Accountants and look forward to furthering our relationship. We are thrilled with the expertise and experience of our professionals and look forward to a chance to share that with you.

In this issue, we return to a few more meaty topics that we think might interest you. As we are turning much of our energy right now to business and individual tax returns, we continue to pay attention to some of the broader issues that might affect you or your

business. I am grateful to those who have contributed such terrific content this month.

We are pleased that you turn to us for a wide variety of business questions and concerns, tax-related and otherwise. If you have a suggestion for a topic you'd like to see us address in an upcoming issue of The Morrissey Report, please let us know. We are more than happy to share our research, our expertise and our commentary with all of you. We think it is just one more reason that John Morrissey Accountants is the firm **where clients refer friends.**

Think Spring! But enjoy the journey through all the seasons!

John F. Morrissey



Focus On The Community



For more than 40 years, Rockford Reachout Jail Ministry has been working with a portion of the community often forgotten – men and women, and youth serving time in jail or prison.

Rockford Reachout works with those who are tired of the lifestyle that led them to incarceration and are looking for a better path. In 2015, Reachout staff and volunteers held 1,163 group sessions inside the Winnebago County Jail and juvenile detention center attended by 14,015 people along with 1,614 individual mentoring sessions.

Improving public safety is critical in Winnebago County. Reachout works towards this goal from the inside out. Our classes focus on developing critical skills needed to succeed outside incarceration, including addiction recovery, restructuring values, and parenting, with an emphasis on changed attitudes and changed thinking that will result in changed behavior. In the juvenile detention center, Reachout classes foster character-building, empowerment, and moral and ethical development.

Reachout accomplishes its mission to prepare at-risk adults and youth for crime-free, Christ-centered life after incarceration with just four dedicated staff members, more than 120 volunteers, and partnerships with more than 40 area churches. Almost all of our revenue comes from donations and grants. If you'd like to learn more, become a volunteer, mentor, or to donate, visit rockfordreachout.org or call 815-319-6625. ♣

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Identity Theft Update

By Tiffany Podkova
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I wrote an article about 5 years ago on identity theft and how we usually associate this with our bank accounts and credit card accounts. At that time many of us never thought about our tax returns. Unfortunately over the past 5 years this has become much more prevalent. Tax related identity theft has continued to rise. This occurs when someone uses your stolen Social Security number to file a tax return claiming a fraudulent refund.

In 2015 the IRS launched an awareness campaign to help better inform you about the need to protect your personal, tax, and financial data to try to protect us from tax related identity theft. The following are a few simple steps you can take to better protect yourself:

- Keep Your Computer Secure – Use security software. Make sure that websites on which you are sharing personal information on have the “https” addresses. Always use strong passwords.
- Avoid Phishing and Malware – Use a pop-up blocker. Never open attachments unless you know who sent them and what it is. If you receive phishing emails from someone claiming to be the IRS forward these emails to phishing@irs.gov.
- Protect Personal Information – Don’t carry your social security card or other documents that contain your SSN. Be very careful of what information you share on social media. Keep old tax records under lock and key and make sure to shred all tax documents before putting in the trash.

It is good to note that the IRS will never communicate with a taxpayer through email. They will never request sensitive information online and will never call you with threats of jail or lawsuits. The IRS will always send a letter through the post office when trying to contact you. If you receive an IRS-impersonation telephone call, report it at www.tifta.gov. If you are ever concerned about a letter you received in the mail from the IRS that you think may be a scam, please contact the IRS to

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Nothing’s Ever Simple Anymore!

By Claire Gierat
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I remember the “Good Old Days” or as they say today, “back in the day!” It all seemed so simple then. I could prepare federal and state income tax returns using a #2 lead pencil and carbon paper to make the copies. Back then, the State of Illinois Income Tax Return was a simple one page form, as were some federal returns.

When we talk about taxes, we usually think about federally taxed income. Most Illinois residents forget about the taxes owed to Illinois because for most, it doesn’t change much from year to year. What about when you change careers and are employed in another state, or sell property in another state? These are only a couple of things that can make a major impact on state taxes. Illinois does have reciprocity with Iowa, Kentucky, Michigan and Wisconsin. These states do not tax compensation of Illinois residents, but any Illinois resident with compensation in those states must include that in Illinois income. Income from sources other than compensation may be taxed in the other state.

Alaska, Florida, South Dakota, Texas, Washington, and Wyoming have no state income tax. Tennessee has no income tax, but they do tax some interest and dividends. Outside of these, only three states have a lower maximum income tax rate than Illinois. I know this is surprising, but Illinois has a maximum of 3.75% while Indiana has 3.30%, Pennsylvania has a maximum of 3.07%, and North Dakota has 2.90%. As a comparison, California has a maximum rate of 12.3% and Massachusetts has a maximum of 12.0%. Income earned from sources in other states becomes taxable to Illinois for the time you are a resident of Illinois. Generally, taxes are also due to that other state but a credit is often allowed on the Illinois return, for some or all of those taxes paid to the other state.

Over the years, the complexity of the Illinois tax return has increased due to the changes in the tax laws. Many new forms have been added, and attachments are required in many cases. Schedule M is the form for reporting additions and subtractions claimed against the total income reported from the federal return. Prior to this schedule, they were line items on page one of IL-1040. Illinois does not tax pensions, IRAs, or Social Security Benefits. These are subtractions, since procedurally they would be included in the income carried to IL-1040. Illinois does tax federally exempt interest and dividends, so these become additions to the IL-1040. These are just a couple of items requiring this schedule.

If you think something will change your tax situation, you should consult your tax advisor, even if you are not a resident of Illinois. Simplicity is a thing of the past when it comes to preparing your federal and state income tax forms. My dad always told me to choose one of three professions. He said that I would always have a job if I chose to be a mortician, an accountant, or a plumber! I can’t tell you why I chose the one that requires me to go back to school every year in order to prepare taxes! ♣



Tuition More Than Just an Education

By Heather Haime
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I had to enroll my son for kindergarten recently and while I was there, the employee helping me began talking about sending her child to college. Words like FAFSA and headache were said. But the headache of paying for school can have some tax benefits.

If you or a dependent are enrolled in higher education courses, there are two tax credits available related to education: American Opportunity Tax Credit (previously known as the Hope Credit) and the Lifetime Learning credit. Credits are great because they reduce the total amount of tax you owe, dollar for dollar.

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Employee or Independent Contractor?

By Patrick Wiesner

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One way some businesses hold down payroll costs is by assigning substantial amounts of work to third-party service providers rather than employees. But classifying a worker as an independent contractor, rather than an employee, is not just a matter of choice. The rules are complex and subject to interpretation. Moreover, because of the payroll taxes involved, the Internal Revenue Service takes a special interest in seeing that workers are properly classified.

If an audit determines that you have misclassified an employee as an independent contractor, you could face substantial tax bills and penalties.

For many years, the IRS used a list of questions known as the “20 Factor” test to help companies determine worker classification. A few years ago, it consolidated the 20 factors into 11, which it organized into three categories:

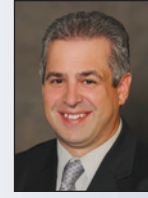
- 1. Behavioral control:** How much does the business direct and control how the worker does the job? Some key factors include instructions about when, where and how to work; the order or sequence of work; where materials are purchased; and any training that is provided.
- 2. Financial control:** How much does the business control the business aspects of the job? This includes the extent to which a worker has unreimbursed expenses, whether the worker has any investment in the job other than his or her own time, how the worker is paid, and whether the worker’s services are also offered to other businesses.
- 3. Type of relationship:** How do the two parties perceive their work arrangements? In addition to written contracts, another factor is whether the business provides the worker with employee-type benefits such as insurance, a pension plan, and vacation or sick pay.

IRS Publication 15-A, the Employer’s Supplemental Tax Guide, includes several examples of common construction industry scenarios involving the use of independent contractors. Generally speaking, if the company controls both what is to be done and how it is to be done, the workers involved are probably employees. But if the company controls only the result of the work, not the means and methods of accomplishing it, the workers may be classified as independent contractors.

The IRS has made it clear that a business can very rarely have an independent contractor who actually does the work of the business. In other words, a person who washes windows for a window washing company will almost always have to be an employee, not an independent contractor. In addition to increasing its payroll tax audits, the IRS has taken other steps to encourage businesses to review worker classifications. For example, you or a contract worker can ask the IRS to review the circumstances and make an official determination of the appropriate status — use Form SS-8. Be aware that it can take at least six months to get a decision.

For companies that believe they might have been misclassifying employees for some time, the IRS offers a Voluntary Classification Settlement Program (VCSP). This lets you voluntarily convert your contractors to employees for the future and pay only a nominal amount of back payroll taxes, with no interest or penalties. VCSP might sound like a good way to address a longstanding misclassification issue.

Proceed cautiously because you could open up other issues including wage and hour compliance under the Federal Labor Standards Act, state and federal unemployment insurance, workers’ compensation insurance, and Immigration Act compliance. Our colleagues at Staff Management, Inc. are also well versed in these complicated rules. Please call us if we can be of help. ♣



Windows 10 Best Features

By Frank Laudicina

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Now that Windows 10 has been out for a few months, I can attest that it is a very good operating system. A great improvement over Windows 8, but also a good upgrade for Windows 7 users. The most obvious feature change from Windows 8 to 10 is the new user interface. Still modern looking, this operating system was designed for users that rely on the keyboard and mouse but can also support tablets and other touchscreen input devices as well. A big part of this new user interface is of course the return of the Windows Start Menu. Windows 10 is a blend of the traditional Start Menu and the Live Tiles from Windows 8 and it all really works well together.

Windows 10 now also contains Cortana which is a built in virtual assistant much like Apple’s Siri. Cortana is built into the system’s search function and is fully voice controlled and can be activated with a simple “Hey Cortana” command. You can set reminders, perform searches, send email, and add calendar events and more via voice control.

The all new Edge Browser is a completely overhauled browser that’s lean, fast, and supports the modern web. Internet Explorer, which has been left behind by more modern browsers such as Google’s Chrome or Mozilla’s Firefox is still available and found under All apps, Windows Accessories.

For those with tablets with attachable keyboards or laptops with the 2 in 1 option that fold and convert to a tablet there is a new feature call Continuum. This feature allows a device like the Surface Pro 3, to switch apps from a desktop and start menu interface by disconnecting the keyboard and switching to the full screen mode of a tablet.

The single best feature of Windows 10 is it is completely free to current users of Windows 7 and 8. In an effort to speed up the adoption of Windows 10, Microsoft has made it free for the entire first year of release which ends on July 29 2016. Look for the windows icon in the lower right corner of your Windows 7 or 8 PC for more information. ♣

“In school, you’re taught a lesson and then given a test. In life, you’re given a test that teaches you a lesson.”
~ author unknown ~

THE MORRISSEY REPORT

is published by

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*To share ideas or suggestions,
please contact John Morrissey.*

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Tuition More Than Just an Education ... *continued from page 2*

American Opportunity Credit (AOTC) – This credit allows for 100% of the first \$2,000 of qualified expenses incurred and 25% of up to an additional \$2,000 of qualified expenses. Qualified expenses include tuition, fees, and materials. This credit can be claimed for up to four years per student. The student must be pursuing a degree and must be enrolled at least half-time for at least one academic period in the tax year.

Lifetime Learning Credit (LLC) – The Lifetime Learning Credit allows up to a \$2,000 credit per return. The LLC follows many of the same guidelines as the AOTC, however there is no limit on the number of tax years the credit is available. For this credit, the student does not have to be pursuing a degree. Tuition and fees for any higher education courses qualify for this credit.

These two credits may be allowed even when a third party, (sibling, grandparents, etc.) pay the expenses. Of course only one credit is available per student. No double benefit allowed!

Lastly, as an alternative to these two tax credits, it may also be possible to deduct up to \$4000 from taxable income with qualifying tuition and fee expenses. There is no limit to the number of years this may be claimed, but the expense cannot

be incurred by a third party.

If you have a high school or college student in your household, don’t hesitate to call us to see how we can maximize your tax benefits. ♣

Identity Theft Update... *continued from page 2*

see if this communication is legitimate. You may call 1-800-TAX-1040 or you may also call the IRS Identity Protection Specialized Unit at 1-800-908-4490. If you find that your identity has been compromised here are some steps to take to minimize potential damage.

- Review www.irs.gov/identitytheft for details.
- File a complaint with the FTC at www.identitytheft.gov.
- Place a “Fraud Alert” on your credit reports, and review those reports carefully.
- Close any accounts that have been tampered with or established fraudulently.

The IRS website www.irs.gov has a great deal of additional information on identity theft protection. As always, if you think we can help, let us know. ♣