This month's edition inside!

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Resource Report

January 2016 • www.gallina.com

Greetings!

Happy 2016! Here at GALLINA, we are gearing up for our most favorite time of the year - TAX SEASON! It's our time to shine and we are excited to provide our clients with outstanding service and invaluable advice for the year ahead. We look forward to connecting with many of you in the upcoming months. If you have any questions in the meantime, don't hesitate to contact your trusted GALLINA partner. We are here and ready to tackle your toughest problems - call us today at 877.638.1188 or email solutions@gallina.com.

GALLINA Tax Bites:

Why investing in small-business stock may make more tax sense than ever

By purchasing stock in certain small businesses, you cannot only diversify your portfolio but also enjoy preferential tax treatment. And under a provision of the tax extenders act signed into

Industry Focus: Manufacturing

Why Measure Channel and Customer Profitability?

Profits are derived from customers via sales and distribution channels. But few organizations validly report profit and loss statements for each customer. What explains this?

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In This Issue

law this past December (the PATH Act), such stock is now even more attractive from a tax perspective.

100% exclusion from gain

The PATH Act makes permanent the exclusion of 100% of the gain on the sale or exchange of qualified small business (QSB) stock acquired and held for more than five years. The 100% exclusion is available for QSB stock acquired after September 27, 2010. (Smaller exclusions are available for QSB stock acquired earlier.)

The act also permanently extends the rule that eliminates QSB stock gain as a preference item for alternative minimum tax (AMT) purposes.

What stock qualifies?

A QSB is generally a domestic C corporation that has gross assets of no more than $50 million at any time (including when the stock is issued) and uses at least 80% of its assets in an active trade or business.

Many factors to consider

Of course tax consequences are only one of the many factors that should be considered before making an investment. Also, keep in mind that the tax benefits discussed here are subject to additional requirements and limits. Consult us for more details.

First, let's step back to understand the broader picture of management accounting intended for decision support and analysis. Its primary purpose is this: to generate questions that lead to needed conversations.

A Primer on Cost Accounting

I would like to believe that the reporting of more accurate product and standard service-line cost and profitability information using activity-based costing (ABC) principles is now common. ABC accurately traces expenses into costs with resource and activity drivers and provides cost visibility that is traditionally hidden.

Sadly, many organizations continue to use a single indirect and shared expense "pool" that allocates resource expenses into costs based on a single cost factor, which violates cost accounting's causality principle. Hence, compared to ABC's disaggregating a single cost pool into multiple ones and then tracing each pool with an activity cost driver based on a cause-and-effect relationship, the existing costs are flawed and misleading. The products and service-lines are simultaneously over- and under-costing because allocations always have a zero-sum error....

Please click [here] to view this article in it's entirety.

[IndustryWeek.com] | 1/11

Sales Tax Reporting for the Construction Industry

Authored Articles and GALLINA Quick Sheets

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Tips to Keep Your Tax Records Secure; Protect Yourself from Identity Theft

If you’re still keeping old tax returns and receipts stuffed in a shoe box stuck in the back of the closet, you might want to rethink that approach.

The IRS has teamed up with state revenue departments and the tax industry to make sure you understand the dangers to your personal and financial data.

You should keep your tax records safe and secure, whether they are stored on paper or kept electronically. The same is true for any financial or health records you store, especially any document bearing Social Security numbers.

You should always keep copies of your tax returns and supporting documents for several years to support claims for tax credits and deductions.

Because of the sensitive data, the loss or theft of these documents could lead to identity theft and have an economic impact. These documents contain the Social Security numbers of you, your spouse and dependents, old W-2 income and bank account information. A burglar could easily turn your old shoe box full of documents into a tax-related identity theft crime.

Here are just a few of the easy and practical steps to better protect your tax records:

- Always retain a copy of your completed federal and state tax returns and their supporting materials. These prior-year returns will help you prepare your next year’s taxes, and receipts will document any credits or deductions you claim should question arise later.
- If you retain paper records, you should keep them in a secure location, preferably under lock and key, such as a secure desk drawer or a safe.
- If you retain you records electronically on your computer, you should always have an electronic back-up, in case your hard drive crashes. You should encrypt the files both on your computer and any back-up drives you use. You may have to purchase encryption software to ensure the files’ security.
- Dispose of old tax records properly. Never toss paper tax returns and supporting documents into the trash. Your federal and state tax records, as well as any financial or health records should be shredded before disposal.
- If you are disposing of an old computer or back-up hard drive, keep in mind there is sensitive data on these. Deleting stored tax files will not remove them from your

computer. You should wipe the drives of any electronic product you trash or sell, including tablets and mobile phones, to ensure you remove all personal data. Again, this may require special disk utility software.

The IRS recommends retaining copies of your tax returns and supporting documents for a minimum of three years to a maximum of seven years. Remember to keep records relating to property you own for three to seven years after the year in which you dispose of the property. Three years is a timeframe that allows you to file amended returns, or if questions arise on your tax return, and seven years is a timeframe that allows filing a claim for adjustment in a case of bad debt deduction or a loss from worthless securities.

Construction News:

Sales Tax Reporting for the Construction Industry

Construction businesses must navigate a sometimes-confusing array of sales tax regulations. Sales tax rules differ from state to state and even from city to city. Though in many states you will not owe sales tax on the services you provide to customers, you will owe tax on the materials you use in your construction business. The rules for time and materials jobs differ from those for lump sum contracts. Knowing the sales tax rules for your state and city will keep you out of trouble.

Tax on Materials

Most of the time, you'll owe sales tax on the lumber, nails, wiring and other materials you use in your construction business. But states differ on when you will pay the tax. In Colorado, for instance, your sales tax license entitles you to purchase materials used on jobs without paying sales tax. But you must charge sales tax to your customers, based on the price you charge the customer, and pay that tax to the state. Other states, such as Louisiana and Washington, require contractors to pay sales tax on the materials they purchase because the customer isn't liable for the tax.

Lump Sum vs. Time and Materials

Some states differentiate between when sales tax should be paid, based on whether the job is a lump-sum contract or a time-and-materials job. In a lump-sum job, you quote a flat price to the customer, which includes both labor and materials. As of publication, Colorado,Texas, Indiana, Nebraska and the District of Columbia require you to charge sales tax on the materials portion of time and materials contracts. Contractors in these states must pay sales tax on materials used in lump-sum jobs, but they don't include that tax as an itemized line item on the contract that the customer pays. Arizona, Mississippi, New Mexico and Hawaii require contractors to charge sales tax to customers on both lump-sum contracts and time-and-materials contracts.

Exceptions

You may not owe sales tax for every job, however. If you’re doing work for a non-profit or charitable organization, a school, a church or a government entity, you may not have to collect sales tax at all. But this depends on the state. In some states, tax-exempt organizations avoid paying sales tax on construction materials only if they purchase them themselves; if you, as the contractor, make the purchase, the state may expect you to pony up the sales tax.

When to Pay and how Much

In states that require you to pay sales tax when you purchase materials for a job, such as Washington, you pay the vendor, which is then responsible for turning the money over to the state or other taxing authority. In states where you don’t pay tax at the time of purchase but collect tax from your customer, you’re subject to the rules of the taxing authority. Depending on where you do business, you will owe state sales tax, as well as local sales tax. You may make your payment to the state, to a local taxing authority, or both. The only way to be sure you’re following the right rules is to check with your state and local tax offices.

Authored Articles and GALLINA Quick Sheets:

GALLINA partners are dedicated to their clients' businesses and industries. To provide the most relevant information, GALLINA passes along articles from our professional service affiliates as well as professional articles written by GALLINA firm partners. These articles are a great read for general knowledge and a "must read" if they are directly related to your industry.

Authored Articles (free premium content):

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Employment Training Panel - Training Reimbursement Program

Overview

The Employment Training Panel ("ETP") is governed by an 8 member panel which is funded by a tax on employers, collected alongside the Unemployment Insurance tax of California taxpayers. The purpose of the program is to encourage job creation and provide support for employers facing out-of-state competition. This program reimburses companies for the cost of training their employees where the objective of the training is to improve the skills of employees and put the company in a better overall competitive position.

Summary of the ETP Training Reimbursement Program

The ETP provides amounts ranging from $8 to $26 per hour for each eligible employee trainee as reimbursement for employer training expenses. Such reimbursements are agreed upon in a contract between the ETP and the eligible Employer providing the training. These contracts typically span a timeframe of one to two years and may reimburse the employer for a minimum of 8 hours up to a maximum of 200 hours of training per trainee. Reimbursement rates and training hour limits may vary by company size. Small businesses (<100 employees in CA) are limited to $50,000 while large businesses (>101 employees in CA) are limited to $750,000 of reimbursement.

ETP can fund a wide variety of training programs. Historically, the following have been the most commonly funded types of programs:

- Quality Management Principles;
- Statistical Process Control (SPC);
- Advanced Technology;
- Production Techniques;
- Computer Skills;
- Materials Resource Planning (MRP);
- Customer Service;
- Management Skills;
- Sales Techniques;
- Computer Numerical Control

Funding is not limited to these types of training. Companies can decide what type of training will be provided. Training can be provided in-house, by a training agency, or by a third party. Training providers should be California based, unless the training is so unique that a training provider cannot be found in California. In addition, training may be provided in a classroom setting, in a laboratory, or by way of electronic delivery.

The most common ETP funded trainings are for currently employed (incumbent) workers and individuals who are unemployed at the start of training.

- Retraining programs are for training incumbent workers by companies that have out-of-state competition.
- New-Hire training programs are for unemployed individuals who are receiving unemployment insurance benefits or who have exhausted their benefits within the last two years. Completion of ETP-funded training must result in full-time employment.

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Opening Doors to Success

Tax Extenders Finally Received Senate Approval

- First year bonus depreciation;
- Election to accelerate alternative minimum tax credits in lieu of bonus depreciation;

- The research and experimentation credit;
- The New Markets Tax Credit;
- The Work Opportunity Tax Credit;
- The production tax credit for wind and other alternative forms of energy;
- The credit for alternative fuel vehicle refueling property;
- The credit for construction of energy efficient new homes.

- *[Employment Training Panel - Training Reimbursement Program](#)*
- *[Tax Extenders Bill](#)*

GALLINA Quick Sheets are 1-2 page reference sheets containing tax or planning tips created to quickly provide important information for your business or personal benefit.

GALLINA Quick Sheets *(all new releases)*

- [Overview of the Employer Shared Responsibility Provisions](#)
- [Self-Insured Employers Must File Health Coverage Information Returns](#)
- [Ten Key Tax Facts About Home Sales](#)
- [Tips on Travel While Giving Your Services to Charity](#)

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