Check out this month's issue of GALLINA's Resource Report.

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Resource Report

September 2016 • www.gallina.com

Greetings!

Fall is finally here, so take out your sweaters and prepare for cooler weather. The September 15th deadline just passed and we could not be more excited about the seasons changing. In this month's Resource Report, we'll learn about the different tax advantages that might fund your health care expenses. We'll also assess hazardous mutual funds and learn what to watch out for.

All information contained in our newsletters can always be found and downloaded from the GALLINA website. Contact us today at 1.800.350.6774 or solutions@gallina.com.

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National Construction

Association Features Julian Xavier

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Darren Sparks has been featured in July/August's issue of CE - Construction Executive. Read more about his recent publication regarding ESOPs on page 55.

Click here to read more.

GALLINA is a proud sponsor of National Association of Surety Bond Producers (NASBP). Check out their Summer 2016 issue and look for GALLINA's full page ad on page 9. Also, read what our Walnut Creek partner, Julian Xavier, has to say about being a best-in-class contractor on page 19.

Click here to read more.

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GALLINA Tax Bites

Three Mutual Fund Tax Hazards to Watch Out For

Investing in mutual funds is an easy way to diversify a portfolio, which is one reason why they're commonly found in retirement plans such as IRAs and 401(k)s. But if you hold such funds in taxable accounts, or are considering such investments, beware of these three tax hazards:

1. High turnover rates. Mutual funds with high turnover rates can create income that's taxed at ordinary-income rates. Choosing funds that provide primarily long-term gains can save you more tax dollars because of the lower long-term rates.

2. Earnings reinvestments. Earnings on mutual funds are typically reinvested, and unless you keep track of these additions and increase your basis accordingly, you may report more gain than required when you sell the fund. (Since 2012, brokerage firms have been required to track — and report to the IRS — your cost basis in mutual funds acquired during the tax year.)

3. Capital gains distributions. Buying equity mutual fund shares late in the year can be costly tax-wise. Such funds often declare a large capital gains distribution at year end, which is a taxable event. If you own the shares on the distribution's record date, you'll be taxed on the full distribution amount even if it includes significant gains realized by the fund before you owned the shares. And you'll pay tax on those gains in the current year — even if you reinvest the distribution.

If your mutual fund investments aren't limited to your tax-advantaged retirement accounts, watch out for these hazards. And contact us — we can help you safely navigate them to keep your tax liability to a minimum.

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Finding the Right Tax-Advantaged Account to Fund Your Health Care Expenses

With health care costs continuing to climb, tax-friendly ways to pay for these expenses are more attractive than ever. Health Savings Accounts (HSAs), Flexible Spending Accounts (FSAs) and

Health Reimbursement Accounts (HRAs) all provide opportunities for tax-advantaged funding of health care
expenses. But what's the difference between these three accounts? Here's an overview:

HSA. If you're covered by a qualified high-deductible health plan (HDHP), you can contribute pretax income to an employer-sponsored HSA — or make deductible contributions to an HSA you set up yourself — up to $3,350 for self-only coverage and $6,750 for family coverage for 2016. Plus, if you're age 55 or older, you may contribute an additional $1,000.

You own the account, which can bear interest or be invested, growing tax-deferred similar to an IRA. Withdrawals for qualified medical expenses are tax-free, and you can carry over a balance from year to year.

FSA. Regardless of whether you have an HDHP, you can redirect pretax income to an employer sponsored FSA up to an employer-determined limit — not to exceed $2,550 in 2016. The plan pays or reimburses you for qualified medical expenses.

What you don't use by the plan year's end, you generally lose — though your plan might allow you to roll over up to $500 to the next year. Or it might give you a 2 1/2-month grace period to incur expenses to use up the previous year's contribution. If you have an HSA, your FSA is limited to funding certain "permitted" expenses.

HRA. An HRA is an employer-sponsored account that reimburses you for medical expenses. Unlike anHSA, no HDHP is required. Unlike an FSA, any unused portion typically can be carried forward to the next year. And there's no government-set limit on HRA contributions. But only your employer can contribute to an HRA; employees aren't allowed to contribute.

Questions? We'd be happy to answer them — or discuss other ways to save taxes in relation to your health care expenses.

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Alerts, Changes and Updates

IRS Works to Help Taxpayers Affected by ITIN Changes; Renewals Begin in October

WASHINGTON — The Internal Revenue Service today announced important changes to help taxpayers comply with revisions to the Individual Taxpayer Identification Number (ITIN) program made under a new law. The changes require some taxpayers to renew their ITINs beginning in October.

Click here to read more.

Industry Focus: Agribusiness
Sales and Use Tax Audit Sampling

Business taxpayers sometimes face surprisingly large sales and use tax audit assessments when the tax or taxable amount is projected from seemingly small and infrequent errors in the auditor's sample. Depending on how the sample is designed and weighted, large audit assessments can either reasonably reflect the taxpayer's actual facts or unintentionally be in error due to the sampling methodology itself. Many taxpayers are not equipped to evaluate the appropriateness of a jurisdiction's methodologies and projections and do not know whether or how to challenge them.

Sampling methodologies vary by state. Most states administer sales and use tax audits covering statewide and sub-state jurisdictions at the state level. While there are similarities, each taxing jurisdiction follows its own independent sampling methodology.

Types of Sampling

In general, state sampling methodologies fall into one of two categories: non-statistical (judgment and block) and statistical (stratified random) sampling.

Judgment sampling: This involves the selection of categories or dollar-size groupings of transactions to audit. This approach may be considered somewhat arbitrary because the selection is not random and has the potential of achieving a biased (or unrepresentative) result. A biased sample can result in either an over- or underassessment of the final amount of tax due. More importantly, there is no clear way to measure the bias or uncertainty. If, however, a small number of records make up a substantial amount of the total dollars under audit, it may be more efficient to follow this approach.

Block sampling: This takes the selection process one step further and focuses the sample on one or multiple time periods (blocks) of transactions. This can work reasonably well or quite poorly, depending on factors such as seasonality. Tax assessments identified in the block sample are projected back to the rest of the time period under audit.

Statistical, stratified random sampling: This is the most widely used approach. Random numbers are assigned to each record—such as a transaction or an invoice—in the population; the population is stratified by some predetermined category or dollar size; records assigned with the lowest random number within each stratum are selected; and, after review, errors in taxability or tax are statistically projected back to the population.

Conclusion

Sampling frequently is used by state and local tax authorities for sales and use tax audits. While stratified random sampling is the most widely used approach, each state has its own unique guidance for sample design, implementation, and extrapolation. It is beneficial for taxpayers to become familiar with sales and use tax audit sampling techniques used in jurisdictions where they operate. The state's sampling method

will affect how the final audit assessment is ultimately determined.

(Source: AICPA – CPA Letter Daily - The Tax Adviser – July 28, 2016)

Made available by NSAC: http://info.gallina.com/e/51952/-sales-use-tax-audit-sampling-/7m673c/386506204

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