

3 Ways to Get Jump Start on Tax Season

Taxpayers face a cliffhanger again this year as Congress dithers about extending more than 50 expired tax breaks, including popular deductions for college tuition and fees, mortgage insurance and sales taxes.

As we wait for lawmakers to act, though, we still have time left in the year to make adjustments based on changes that have already happened. Here are three ways to adjust your tax planning:

1. Reconsider Roths

The volatile stock market means some people might want to take advantage of lower stock values to convert traditional IRAs, funded with pre-tax money, to Roths, which are funded with after-tax money and whose profits can be withdrawn tax-free. They can also redo conversions made last year, when stock values were higher, said Mark Luscombe, principal federal tax analyst for Wolters Kluwer Tax & Accounting US.

Roth conversions typically trigger income tax bills based on the value of the account at the time of the conversion, Luscombe said. People can undo, or “recharacterize,” a 2014 Roth conversion up until Oct. 15, the extension deadline. Then they have the option to convert back to a Roth if they wait 30 days, or until the year after the original conversion, whichever is later.

2. Avoid rising Obamacare penalties

The fine for not maintaining health insurance rose sharply this year under the Affordable Care Act, says Kirstin Esposito, senior technical manager on the American Institute of Certified Public Accountants (AICPA)’s tax advocacy team.

The penalty for not having had coverage for at least nine months in 2015 is now the greater of 2 percent of household income, or \$325 for each adult and \$ for each child with a \$975 household limit.

That is up from last year's penalty, which was the greater of 1 percent of household income or \$95 for each adult and \$ for each child to a maximum of \$285.

If you have not signed up already, it is obviously too late to get in nine months of coverage, but there are a number of hardship exemptions. One waives the fine if the lowest-cost coverage available to you exceeds 8 percent of your household's income, Esposito said.

3. Check your "independent contractor" status

The Department of Labor took aim this summer at employers who may be misclassifying workers as contractors to reduce their companies' tax and health insurance obligations.

A July 15 memo said that most workers being treated as independent contractors were actually employees under the Fair Labor Standards Act. The government issued new guidance that could be used by regulators and courts to order employers to pay back wages, interest and penalties as well as health insurance fines.

Workers who suspect they are being misclassified can alert the Internal Revenue Service or the Department of Labor, or both. The truly bold—or those who do not care about continued employment with the company—can file a Form SS-8 with the IRS to explain why they are an employee rather than a contractor and Form 4852 as a substitute W-2, said Eva Rosenberg, an enrolled agent ().

Using the forms will alert the IRS to the employer's misclassification, although it may take the agency a few years to get around to an audit, Rosenberg said.

Employers who classify workers as contractors should consult with a tax professional—and with an attorney if they have deliberately misclassified people, Nellen said.

“The risks are really quite high, and they’ve gone up because of the Affordable Care Act,” Nellen said. “You can have significant exposure.” {eo}

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