

TAX DISPATCH



June 2013

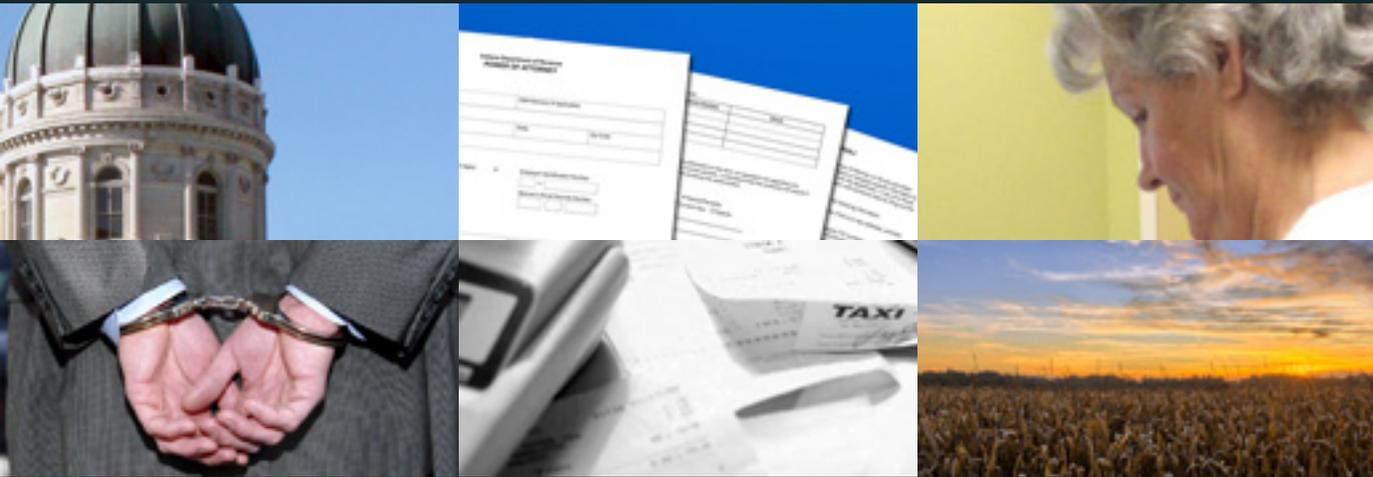
Legislative
Update

*Business
e-mandate*

When We Audit

Tax Dispatch

June 2013



Editorial

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CONTENTS

Legislation Summarization	4
New Look for Power of Attorney Form	12
Department Has Record-Breaking Tax Season	14
Report Tax Fraud Anonymously	18
Business e-mandate Update	20
What to Expect if You're Audited	22
Inheritance Tax Update	24
New and Updated Tax Bulletins and Notices	26
Get Connected	28



LEGISLATIVE *S*

ATION SUMMARIZATION

With the 2013 Indiana General Assembly completed, it's time to take a look at the legislation that was passed and consider how it will affect Hoosier taxpayers.



The image shows the Indiana State Capitol building, featuring a prominent green dome and a flagpole with the American flag and the Indiana state flag. The building is set against a clear blue sky.

The following highlights some of the key changes to Indiana's tax laws, listed by tax type. For a complete listing of all the changes for 2013 and changes that go into effect in 2014, please visit the department's Legislative Summaries webpage (<http://www.in.gov/dor/3656.htm>) and click the link for the 2013 summary. This summary has been reformatted this year to make it more useful and readable.

Individual AGI Tax

The following changes affect Indiana's individual adjusted gross income tax:

- The following addbacks have been eliminated for purposes of determining adjusted gross income (retroactive to Jan. 1, 2013):
 - Qualified restaurant property, qualified leasehold property, qualified retail improvement property, and seven-year property for a motorsports entertainment complex
 - Expensing of environmental remediation costs
 - Charitable contribution of a distribution from an individual retirement plan
 - Qualified tuition and related expenses
 - Certain expenses of elementary and secondary school teachers
 - Employer-provided education expenses
 - Qualified advanced mine safety equipment

- Qualified transportation fringe benefits that exceed \$100 per month
- Additional deduction for student loan interest
- Additional business startup expenditures
- RIC dividends to nonresident aliens
- Oil and gas well depletion deduction
- Qualified electric utility amortization
- For tax years 2015 and 2016, the individual income tax rate will be reduced to 3.3%, and for 2017 and thereafter, the rate will be reduced to 3.23%.
- The School Scholarship Credit can be carried forward for nine years after the unused credit year (effective Jan. 1, 2013, retroactive).
- The cap on the School Scholarship Credit has increased from \$5 million to \$7.5 million (effective July 1, 2013).

Corporate AGI Tax

The following changes affect Indiana's corporate adjusted gross income tax:

- The following addbacks have been eliminated for purposes of determining adjusted gross income (retroactive to Jan. 1, 2013):
 - Qualified restaurant property, qualified leasehold property, qualified retail improvement property, and seven-year property for a motorsports entertainment complex
 - Expensing of environmental remediation costs
 - Qualified advanced mine safety equipment
 - Qualified transportation fringe benefits that exceed \$100 per month
 - Additional business startup expenditures
 - Net recognized built-in gain for an S corporation
 - RIC dividends to nonresident aliens
 - Oil and gas well depletion deduction

- Qualified electric utility amortization
- Section 1367(a)(2) of the Internal Revenue Code pertaining to an adjustment of basis of the stock of shareholders
- Section 897(h)(4)(A)(ii) of the Internal Revenue Code pertaining to regulated investment companies qualified entity treatment
- Section 512(b)(13)(E)(iv) of the Internal Revenue Code pertaining to the modification of tax treatment of certain payments to controlling exempt organizations
- The School Scholarship Credit can be carried forward for nine years after the unused credit year (effective Jan. 1, 2013, retroactive).
- The cap on the School Scholarship Credit has increased from \$5 million to \$7.5 million (effective July 1, 2013).
- For the Industrial Recovery Credit, a vacant industrial facility no longer has to be vacant for at least one year to qualify (effective July 1, 2013).
- The Coal Combustion Credit is repealed (effective July 1, 2013).
- Qualifications for the Headquarters Relocation Credit have changed (effective July 1, 2013):
 - The definition of “corporate headquarters” has been expanded to include the principal offices of a division or similar subdivision of an eligible business or a research and development center of an eligible business.
 - The annual worldwide revenue requirement of a business that wants to claim the credit has been reduced from \$100 million to \$50 million.

Sales and Use Tax

The following changes affect Indiana’s sales and use tax:

- The requirement that an aircraft be registered in another country and weigh more than 5,000 pounds to be eligible for the sales tax

exemption concerning the repair, maintenance, refurbishment, remodeling, or remanufacturing of an aircraft or avionics system has been eliminated (effective July 1, 2013).

- An amnesty program has been established for taxpayers having an unpaid use tax liability for a claiming transaction concerning a race horse on a transaction occurring before June 1, 2012. The taxpayer must pay the tax or establish a payment agreement before Jan. 1, 2014. If payment is made, the department will abate all penalties, interest, collection fees, and costs; release any liens imposed; agree to not seek civil or criminal prosecution; and agree to not issue any assessment for which the amnesty has been granted (effective July 1, 2013).

Other Taxes

- **County Tax**—There are new effective dates for ordinances adopted to increase, decrease, or rescind a local option income tax. An ordinance adopted after December 31 and before September 1 takes effect on October 1. An ordinance adopted after August 31 and before November 1 takes effect on January 1 of the following year (effective July 1, 2013).
- **Inheritance Tax**—The inheritance tax has been repealed for deaths occurring after Dec. 31, 2012. The inheritance tax refund statute (IC 6-4.1-10-1) has been amended, including the requirement to use the refund claim form prescribed by the department (Form IH-5) (effective Jan. 1, 2013, retroactive).
- **Financial Institutions Tax**—The financial institutions tax rate has been reduced from 8.5% to 8.0% for taxable years beginning after Dec. 31, 2013. This will continue to be reduced by 0.5% for each year until Jan. 1, 2017, when the rate will be 6.5% (effective July 1, 2013).

- **Financial Institutions Tax**—The following addbacks have been eliminated for purposes of determining adjusted gross income (retroactive to Jan. 1, 2013):
 - Qualified restaurant property, qualified leasehold property, qualified retail improvement property, and seven-year property for a motorsports entertainment complex
 - Expensing of environmental remediation costs
 - Qualified advanced mine safety equipment
 - Additional business startup expenditures
 - Net recognized built-in gain for an S corporation
- **Special Fuel Tax**—Truck stop owners must obtain a truck stop owner's license from the department. The license is valid for two years (effective July 1, 2013).
- **Aviation Fuel Tax**—An aviation fuel excise tax has been enacted. The tax is \$0.10 per gallon for aviation fuel purchased in Indiana. Retailers must add the tax to the selling price of each gallon of fuel sold. The sale of aviation fuel is exempt if the fuel



is placed into the supply tank of an aircraft owned by the United States or its instrumentalities, the state of Indiana, the Indiana Air National Guard, or a common carrier of passengers or freight (effective July 1, 2013).

- **Other Tobacco Products Tax**—Any person selling other tobacco products through an Internet website must remit the other tobacco products tax to the department (effective July 1, 2013).
- **Other Tobacco Products Tax**—Any person selling other tobacco products through an Internet website must obtain a distributor's license (effective July 1, 2013).



New Look for Power of Attorney Form

The Indiana Department of Revenue's Power of Attorney Form (POA-1) has received a new look. In an effort to make the form more user-friendly and enable the department to process it more efficiently, some content has been added and some of the existing information has been reorganized and reformatted.

The image shows a stack of three documents related to the Indiana Department of Revenue's Power of Attorney Form (POA-1). The top document is the main form, which includes sections for:

- 1. Taxpayer Information:** Fields for Taxpayer(s) Name(s), Address (with a checkbox for "New Address?"), City, Telephone Number, and State. There is also a field for DBA Name(s) (if applicable).
- 2. Identification Numbers:** Fields for Indiana Taxpayer Identification Number (10 digits), Social Security Number, Employer Identification Number, and Spouse's Social Security Number.
- 3. Representative Information:** Fields for Individual Representative Name, Address, City, State, Zip Code, Telephone Number, and Email. It also includes fields for Additional Individual Representative Name and their contact information.
- 4. Firm/Vendor Information:** Fields for Firm/Vendor Name (*if applicable), Address, City, State, and Telephone Number.

The middle document is a table for listing representatives:

Representative(s) Name	Telephone Number	Email

The bottom document is the "Instructions for Indiana Form POA-1". It contains text such as "I authorize the listed representative(s), in addition to anything otherwise authorized on this form, to represent me regarding all matters with the Indiana Department of Revenue regardless of tax years or income periods. I understand that this authority will expire from the date this POA is signed or a written and signed notice is filed revoking this authorization." and "I acknowledge that the designated representative has the authority to receive confidential information and full power to perform on behalf of the taxpayer in tax matters related to this Power of Attorney. This authority does not include the power to receive refund checks. I acknowledge that actions taken by the designated representative are binding, even if the representative is not an attorney. Proceedings cannot later be declared legally defective because the representative was not an attorney." It also includes a section for "7. Authorizing Signature" with fields for Signature, Printed Name, Telephone Number, Date, Title, and Email.

The updated form features space to enter additional representatives as well as a check box that lets taxpayers give representatives power of attorney for all tax types and tax years. No longer having to enter each tax type and tax year individually will save taxpayers time when filling out the form.

The POA-1 now also features asterisks next to all of the fields that are required to be filled out. This will help taxpayers ensure that they have completed the form properly and decrease the possibility of their power of attorney request being denied.

In another effort to improve the efficiency of the POA-1, the department has a signed Memorandum of Understanding (MOU) with service providers Paycor and ADP. This partnership aims to eliminate a separate POA form for each client while adhering to the department's confidentiality requirements.

Under this MOU, Paycor and ADP have each submitted a "limited service provider POA" that lists the authorized agents who may contact the department to discuss their client's tax issues. This way, when the department receives a phone call or correspondence from a representative, employees can simply scan the list of authorized representatives for each company to verify that the representative is authorized to discuss that taxpayer's account.

With the revisions to the POA-1 and the MOU with Paycor and ADP, the department is aiming to further its mission to provide quality service to Hoosier taxpayers.



Department Has Record-breaking Tax Season

The Indiana Department of Revenue has experienced its most efficient and effective tax processing season in recent memory—perhaps in its history. As of May 29, the department had processed more than 3 million individual tax returns, which represent about 97% of expected filings and 100,000 more filers than we had last year at this same point. We reached this number a full week earlier than last year. And, we accomplished this while continuing to process all business tax filings and corporate income tax returns.

Like last year, about 80% of all returns were filed electronically at this point. And more than 117,000 filings were filed using INfreefile!

The department still received tens of thousands of paper returns. The Returns Processing Center (RPC) had its best tax year on record. In just one day earlier this month, RPC employees processed almost 17,000 individual returns.

The Customer Interaction Center also had a record-setting year. The department had set a goal of handling 1,750 incoming individual tax calls with minimal deflections and abandoned calls on April 15. By using the “All In” system, in which analysts from other sections helped answer



The department continued to scan and process business returns along with individual returns (shown here: Scanner Operator Brenda Wagner)



Tax analyst Tasha Coleman was one of the many employees who helped the department answer 2,000+ phone calls on April 15.

phone calls for that day, the department exceeded its goal by more than 300 calls. We handled more than 2,000 individual income tax calls that day, breaking the department’s record for the Indiana filing due date and exceeding last year’s tax day figures by 33%. In all, the department handled more than 320,000 calls this tax season.

The district offices also saw an increase in traffic on tax day. On April 15, each district office assisted an average of 200 walk-in taxpayers, and a couple of the offices assisted more than 300 walk-ins. District office employees also answered more than 600 phone calls that day.

“Our employees did a great job,” said Revenue Commissioner Mike Alley. “I’m really proud of the work everyone has done.”

ALL businesses in Indiana must file and pay their sales and withholding taxes electronically.



The easiest way tax practitioners can electronically file and pay these taxes is through Indiana's free online program INtax.

www.intax.in.gov

Learn how to register and use INtax by downloading the "Tax Professional's Guide to INtax" at www.in.gov/dor/3338.htm.

Report Tax Fraud Anonymously

Fraud and identity theft continue to be the number one concern of all tax agencies in 2013. Incidents are on the rise, and department efforts to combat these illegal activities are also increasing.

In fiscal year 2012, the IRS initiated approximately 900 identity theft-related criminal investigations, tripling the number of investigations initiated in fiscal year 2011. Direct investigative time applied to identity theft-related investigations increased by 129 percent over that same period.

The Indiana Department of Revenue also is seeing impersonation scams increasing during this tax season. They can take the form of email, phone calls, websites, letters and even tweets. Scammers might also use a phone or fax to reach their victims. If you receive a paper letter or notice via mail claiming to be the Indiana Department of Revenue but you suspect it is a scam, contact the department immediately.

Although the department recognizes that most taxpayers are honest and seek to pay their fair share for the services they receive from the state, the department knows there are others who work hard to avoid their tax responsibilities. And, there are those who

actively seek to gain tax refunds they are not entitled to receive – often using others' identification information.

To help taxpayers avoid fraud, and to help taxpayers report suspected fraud, the department has launched a new fraud section of its website. Hoosier taxpayers can learn more about tax fraud and identity theft, read examples of how they can be affected, and report suspected tax fraud

anonymously. This information and the fraud reporting tools can be found at www.in.gov/dor/4792.htm.



There are three ways to report tax fraud:

- Call the 24-hour Indiana Tax Fraud Hotline at 317-232-2271.
- Complete an online form at www.in.gov/dor/4788.htm.
- Download and mail or fax the Tax Fraud Referral form to the department, available at www.in.gov/dor/4796.htm.

The department's Special Investigation Unit Division, which has successfully investigated tax fraud cases for years, will look into cases reported by concerned citizens. Hoosiers who report tax fraud should note that due to confidentiality requirements, we cannot share the status of any investigation that might occur as a result of the information provided.

Fraudulent tax activities and identity theft are attempts to steal money from Indiana taxpayers. If you are suspicious of anyone or any activity, please do not hesitate to notify the department.

Business e-Mandate L

As many may know, beginning January 2013, all sales and withholding taxes are now required to be filed electronically, which can include using vendors certified by the department or the department's free INtax application (www.intax.in.gov). Additionally, businesses will be required to remit their sales and withholding taxes electronically via the department's INtax application or an electronic funds transfer (EFT).

So far, more than 180,000 businesses are registered in INtax.

More than 6,000 practitioners are using INtax to manage their clients' business taxes; take care of several other record-keeping tasks; and manage several business tax types, including Indiana retail sales, out-of-state sales, prepaid sales, metered pump sales, tire fees, fuel taxes, withholding taxes, and more.

Here are just a few of the other tasks a practitioner can complete using INtax:

- Correspond with the Department of Revenue online through a confidential, secure inbox
- Register and edit multiple clients
- View and print a current client list
- Schedule payments up to 30 days ahead
- File a return even when no tax is due for that filing period so clients can avoid best information available (BIA) bills

Update

- Make a separate electronic payment for each client or pay multiple client accounts through a bulk payment upload
- View the client's payment and return history at any time

Although a client is not required to be registered with INtax before a practitioner can add him, the client still has the option to register for INtax to be able to access his account information, as well as view the activities of the practitioner. Whether the client registers for INtax or not, he is notified that a practitioner is managing his state taxes using INtax.

Resources for Practitioners

To get started using INtax, visit www.intax.in.gov and register as a service provider.

To see just how easy INtax is to use, watch the online tutorials at www.in.gov/dor/4821.htm or download a copy of the *Tax Professional's Guide* to INtax at www.in.gov/dor/3338.htm.

The *Tax Professional's Guide to INtax* helps new users register for INtax and navigate the website. Instructions and tips cover the following topics:

- Registering in INtax as a service provider
- Logging in to INtax
- Getting a quick overview of INtax
- Controlling user security
- Adding clients
- Editing and deleting client information
- Editing client EFT information
- Filing and paying taxes
- Bulk filing and paying taxes

What to Expect if You're

Notice of a department audit can be a daunting event. But it doesn't need to be. In this article we attempt to demystify the process.

Audit candidates are primarily selected randomly from various data gathered from the Indiana Department of Revenue. If you or a client is selected for audit, you will first be notified by an assigned field auditor.

Typically, a field auditor opens communication with the taxpayer by sending a letter explaining which tax types and tax periods will be audited. A department auditor usually reviews Indiana sales and use tax, withholding tax, and the appropriate income tax records, as well as any other related taxes that apply. This could include food and beverage tax or motor vehicle rental tax, for example.

The letter lists a variety of common records and financial statements that are required to verify tax compliance. Indiana law requires that all taxpayers maintain and allow the department access to various books and records.



Records Audited

The records requested may include copies of:

- Federal income tax returns and related schedules
- Trial balances and general ledgers
- Sales records (invoices or receipts)
- Proof of exempt sales (exemption certificates)
- Invoices supporting all purchases made
- Payroll records
- Copies of employees' W-2s

The auditor may request almost any record or document that confirms proper payment of taxes due.

The letter also provides contact information for the auditor and taxpayer to schedule a mutually agreeable time to conduct the audit. Most audits completed by the Department of Revenue involve a week or less of actual field work, although larger businesses might take much longer. The department seeks to maintain an open and honest dialogue throughout the audit process and encourages questions during all phases of the audit process. If you have questions at any time, please contact the auditor and/or the audit supervisor.

In subsequent articles, we'll discuss additional audit process information, including how to prepare for an audit, what happens during an audit, what happens after an audit is completed, and the steps businesses can take to contest an audit result.

Inheritance Tax Update

On April 27, the Indiana General Assembly repealed inheritance tax, and Governor Mike Pence signed the bill into law on May 8.

Indiana's inheritance tax has been repealed for taxpayers who died after Dec. 31, 2012.

For taxpayers who die after Dec. 31, 2012, Consents to Transfer (Form IH-14) or Notices of Intended Transfer of Checking Account (Form IH-19) are no longer required because of this repeal.

However, for taxpayers who died before Jan. 1, 2013, Consents to Transfer for financial accounts and Notices of Intended Transfer of Checking Account are still required. Inheritance tax returns (Form IH-6 for Indiana residents and Form IH-12 for non-residents) must be filed for those who died before Jan. 1, 2013, if any transferee exceeds his or her exemption amount.

The 2013 legislature also made some changes in the filing of refunds for inheritance tax. Under the new law, individuals will be required to file a refund claim on a Claim for Refund (Form IH-5) with the Indiana Department of Revenue. This new requirement applies to any claim for refund whether the individual died in 2013 or before.

To assist in providing the most up-to-date information, we suggest that you visit our inheritance tax website at www.in.gov/dor/3807.htm.



New and Updated Tax Bulletins and Notices Available Online

Departmental Notices

- 37-Allowable Alternative Forms of Signature
- 38-Marion County Admissions Tax and Marion County Supplemental Auto Rental Excise Tax

Income and Sales Tax Information Bulletins

- 17-Taxation and Filing Requirements of Not-For-Profit Organizations
- 02-Warranties and Maintenance Contracts
- 47-Auto Rental Excise Tax and Marion County Supplemental Auto Rental Excise Tax

Be sure to check the department's website regularly for additional updates to tax bulletins, directives, and notices at <http://www.in.gov/dor/3330.htm>.



Get Connected

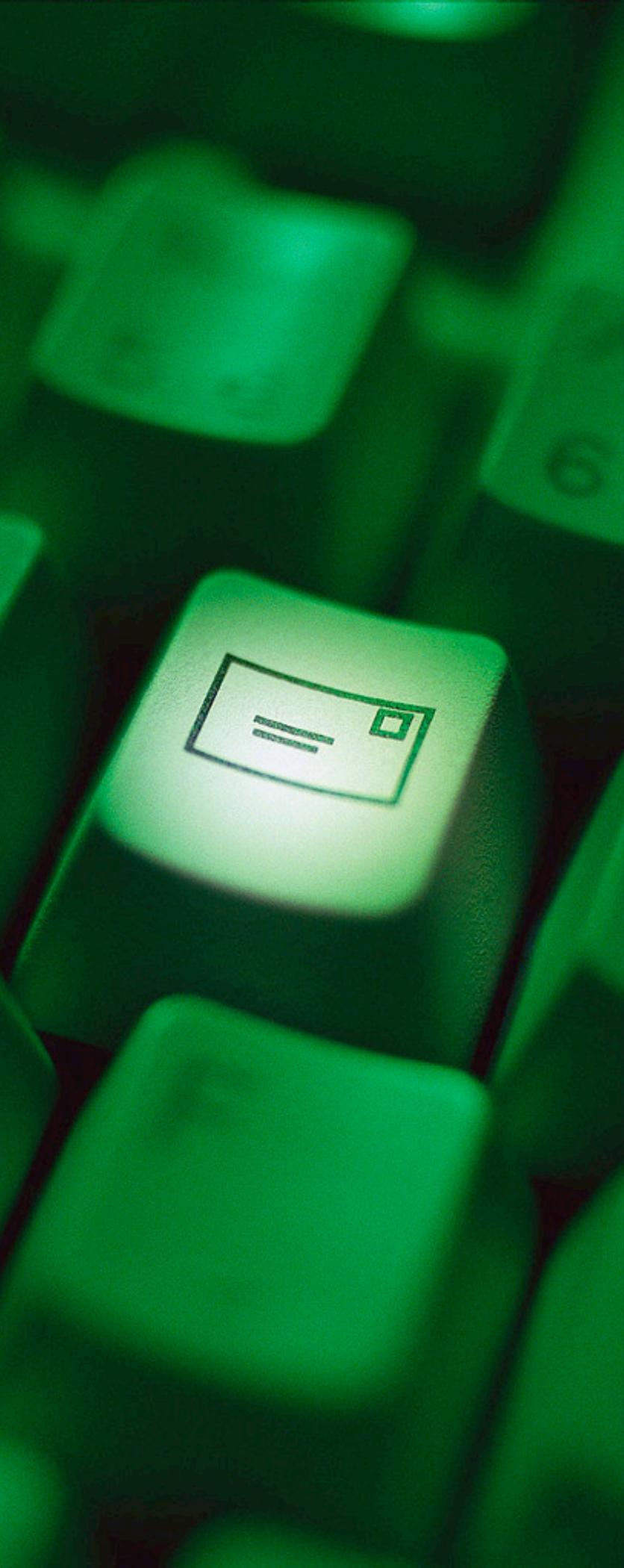
It is important for tax practitioners to know the various ways in which they can contact the department if they are in need of help or want to receive critical updates from the department.

When you have a specific question that our website does not answer, you are encouraged to use the online inquiry center to send your questions and concerns directly to our tax professional area. If you have an immediate concern, however, you can contact the department at (800) 462-6320 (enter 4367) to connect. This number is for the use of tax practitioners only. If a taxpayer would like to contact the department, he or she can do so at (317) 232-2240.

In addition, the department offers several other ways for you to learn about important tax updates at your convenience:

- Become a Facebook fan by clicking [here](#).
- Follow us on Twitter at www.twitter.com/INDeptofRevenue.
- Subscribe to our Tax Talk Blog at www.in.gov/dor/3877.htm.
- Sign up for automatic email updates on the department's website at www.in.gov/dor.

For previous editions of the Tax Dispatch, [click here](#).

A close-up photograph of a computer keyboard with a strong green glow. The keys are slightly out of focus, but one key in the center is clearly visible, featuring an icon of an envelope with a stamp, representing email or messaging. The overall lighting is dim, with the green light providing the primary illumination.

Hours of Operation

The district offices and main call center of the Indiana Department of Revenue are open from 8 a.m. to 4:30 p.m. Monday through Friday.

The department's collections division call center is open 7:30 a.m. to 5:30 p.m. (Monday through Thursday) and 8 a.m. to 4:30 p.m. (Friday).

For more information about how to contact the department, visit www.in.gov/dor/3325.htm.

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