



**2015 1040 Tax Law Update
with Year-End Planning Ideas**

Presented by
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First, the good news...

- **Individuals Have Extra Time to File in 2016**



- **Monday, April 18**

Bad News? (Been there, done that)...extenders **NOT extended, yet**

1. State and local sales tax deduction
2. Above-the-line deduction for teacher's expenses
3. Above-the-line deduction for qualified tuition and related expenses
4. Deduction for mortgage insurance premiums as qualified interest

We're still waiting...

- 5. Exclusion from gross income for discharge of principal residence debt
- 6. Rule allowing tax-free distributions from IRAs for charitable purposes
- 7. IRC 179 and expanded definition has not yet changed
- 8. 50% bonus depreciation
- 9. 15-year cost recovery on qualified leasehold

Administrative changes

- Standard Mileage Rates: .575/.23/.14
- Personal Exemption hits \$4,000 (phase outs still apply starting at \$258,250 single and \$309,900 joint)
- Standard Deduction: \$6,300/\$12,600
- AMT exemption
- Lifetime learning credit income limits
- Retirement savings contribution credit income limits
- Adoption credit or exclusion income limit

Administrative changes

- EITC limits
- Social Security tax cap at \$118,500
- HSA \$3350 for an individual and \$6750 for family coverage
- Additional Medicare Tax at .9% continues on wages above \$200K single; \$250K Joint



06/2015 Trade Bills include tax changes

- requires taxpayers to obtain a Form 1098-T in order to claim certain educational tax benefits,
- increases the penalties for failure to file correct information returns (e.g. Form 1099s),
- extends the Section 35 Health Care Tax Credit through 2019, and
- precludes a taxpayer that excluded gross income under IRC Sec. 911 from claiming the refundable portion of the Section 24 child tax credit
- allows federal safety workers penalty-free withdrawals from gov retirement plans at 50

Regular Tax Rates

2015 Tax Rate Schedules
 Caution. Do not use these Tax Rate Schedules to figure your 2014 taxes. Use only to figure your 2015 estimated taxes.

Schedule X—Use if your 2015 filing status is Single			Schedule Z—Use if your 2015 filing status is Head of household		
If line 5 is:	The tax is:	of the amount over—	If line 5 is:	The tax is:	of the amount over—
Over—	But not over—		Over—	But not over—	
\$0	\$9,225	+ 10%	\$0	\$13,150	+ 10%
9,225	37,450	\$922.50 + 15%	13,150	50,200	\$1,315.00 + 15%
37,450	90,750	5,166.25 + 20%	50,200	129,800	6,872.50 + 25%
90,750	189,300	18,481.25 + 25%	129,800	209,800	26,732.50 + 30%
189,300	411,500	46,875.25 + 30%	209,800	411,500	49,182.50 + 35%
411,500	413,200	119,841.25 + 30%	411,500	439,000	115,737.00 + 30%
413,200		119,996.25 + 30.6%	439,000		125,562.00 + 30.6%

Schedule Y-1—Use if your 2015 filing status is Married filing jointly or Qualifying widow(er)			Schedule Y-2—Use if your 2015 filing status is Married filing separately		
If line 5 is:	The tax is:	of the amount over—	If line 5 is:	The tax is:	of the amount over—
Over—	But not over—		Over—	But not over—	
\$0	\$18,450	+ 10%	\$0	\$9,225	+ 10%
18,450	74,900	\$1,845.00 + 15%	9,225	37,450	\$922.50 + 15%
74,900	151,200	10,312.50 + 25%	37,450	75,600	5,166.25 + 25%
151,200	230,450	29,387.50 + 28%	75,600	115,225	14,693.75 + 28%
230,450	411,500	51,571.60 + 30%	230,450	205,750	35,786.25 + 30%
411,500	484,850	111,324.80 + 35%	411,500	205,750	55,662.00 + 35%
484,850		129,996.50 + 30.6%	484,850		64,998.25 + 30.6%

Capital Gains Rates?

- Zero Percent
- 10%
- 15%
- 20%
 - 23.8%
 - 25%
 - 28%...or more

Hot Button Issues

Problems Plaguig Taxpayers and the Tax System

Indications your identity may have been stolen and how to report it to IRS

Your identity may have been stolen if you receive a letter from the IRS stating or learn from a tax professional that

...

- 1. ... you filed more than one tax return or someone has already filed using your information.
- 2. ... you have a balance due, refund offset or have had collection actions taken against you for a year you did not file; and / or
- 3. ... you received wages from an employer you have not worked for.
- **Use Form 14039 to notify IRS and request an IP PIN**

Letter from the Editor, JTPP October-November 2015

- *While most of the emphasis of identity theft reporting has been on "someone took your social security number, and they might use it to cause you financial harm..." the truth is that stolen social security number usage the IRS has been plagued with are related to stolen identity refund fraud. The theft is against the US Treasury; eventually (and I have had this type of case take over three years to resolution) the taxpayer is not denied their entitlement to the withholdings or estimated taxed they actually paid and these amounts are credited toward any tax they actually owed. To date, none of the stolen Social Security Number cases my office has work with has gone further than harm to the US Treasury.*

One of the "Dirty Dozen" Tax Scams for 2015...(and 2014, and 2013, ...)

- **Offshore Tax Avoidance**
 - It's a bad bet to hide money and income offshore.
 - Putting money into a foreign bank account is not illegal.
 - Putting money into a foreign bank account for the sole purpose of hiding it from the IRS *is* illegal.



Offshore Compliance Programs Generate \$8 Billion; IRS Urges People to Take Advantage of Voluntary Disclosure Programs

IR-2015-116, Oct. 16, 2015
 Under the Foreign Account Tax Compliance Act (FATCA) and the network of intergovernmental agreements (IGAs) between the U.S. and partner jurisdictions, automatic third-party account reporting began this year, making it less likely that offshore financial accounts will go unnoticed by the IRS.

Exceptions to Tax on Early Retirement Distributions

- *The IRS found that almost 40% of the individuals made errors on their Form 1040 tax returns and most didn't qualify for the exception to the 10% early withdrawal penalty.*
- **USE the exception chart!**



RMD's

Required Minimum Distributions for Account Owners		
	IRAs including SEP, SIMPLE and SARSEP IRAs	Defined Contribution Plans
When do I take my first RMD (the required beginning date)?	You must take your first RMD by April 1 of the year following the year in which you turn 70½, regardless of whether you are still employed.	April 1 of the year following the later of the year you turn 70½ or the year you retire (if allowed by your plan). If you are a 5% owner, you must start RMDs by April 1 of the year following the year you turn 70½.
When do I reach age 70½?	You reach age 70½ on the date that is 6 calendar months after the date of your 70th birthday. Example: Your 70th birthday was June 30, 2010. You reached age 70½ on December 30, 2010. You must take your first RMD (for 2010) by April 1, 2011. Example: Your 70th birthday was July 1, 2010. You reached age 70½ on January 1, 2011. You do not have an RMD for 2010. You must take your first RMD (for 2011) by April 1, 2012.	Same as IRA rule
What is the deadline for taking subsequent RMDs after the first RMD?	After the first RMD, you must take subsequent RMDs by December 31 of each year beginning with the calendar year containing your required beginning date. Example: You turn 70½ on July 15, 2010. You must take your first RMD, for 2010, by April 1, 2011. You must take your second RMD, for 2011, by December 31, 2011, and your third RMD, for 2012, by December 31, 2012.	Same as IRA rule

How do I calculate my RMD?	Your RMD is generally determined by dividing the adjusted market value of your IRAs as of December 31 of the preceding year by the distribution period that corresponds with your age in the Uniform Lifetime Table (Table 90 in IRS Publication 590-B, Distributions Individual Retirement Arrangements (IRAs)). If your spouse is your sole beneficiary and is more than 10 years younger than you, you will use the Joint Life and Last Survivor Expectancy Table (Table 91 in IRS Publication 590-B). <u>Required Minimum Distributions Worksheet</u>	Same as IRA rule Your plan sponsor/administrator should calculate the RMD for you.
How should I take my RMDs if I have multiple accounts?	If you have more than one IRA, you must calculate the RMD for each IRA separately each year. However, you may aggregate your RMD amounts for all of your IRAs and withdraw the total from one IRA or a portion from each of your IRAs. You do not have to take a separate RMD from each IRA.	If you have more than one defined contribution plan, you must calculate and satisfy your RMDs separately for each plan and withdraw that amount from that plan. Exception: If you have more than one 403(b) tax-sheltered annuity account, you can total the RMDs and then take them from any one (or more) of the tax-sheltered annuities.
May I withdraw more than the RMD?	Yes, an IRA owner can always withdraw more than the RMD. You cannot apply excess withdrawals toward future years' RMDs.	Same as IRA rule
May I take more than one withdrawal in a year to meet my RMD?	You may withdraw your annual RMD in any number of distributions throughout the year, as long as you withdraw the total annual minimum amount by December 31 (or April 1 if it is for your first RMD).	Same as IRA rule
What happens if I do not take the RMD?	If the distributions to you in any year are less than the RMD for that year, you are subject to an additional tax equal to 50% of the undistributed RMD.	Same as IRA rule

Achieve a Better Life Experience Act – ABLE Accounts

- New tax-advantaged savings for disabled individuals
 - Contributions aren't deductible
 - Earnings are tax-free
- Closely modeled on §529 plans
- Contributions
 - Limited to annual gift tax exclusion
 - Good idea, but one BIG issue...

Year-End Planning

Yes, there's still a few things that might be worthwhile...



Take a look at where you are...

- Sometimes making last-minute adjustments to income can make a big difference to taxes you'll be paying...or even your Medicare premiums
- In 2016, the standard Part B premium amount will be \$121.80 (or higher depending on your income). However, most people who get Social Security benefits will continue to pay the same Part B premium amount as they paid in 2015. This is because there wasn't a cost-of-living increase for 2016 Social Security benefits

But, if your modified AGI as reported on your IRS tax return from 2 years ago is above a certain amount, that's not the case...

If your yearly income in 2014 (for what you pay in 2016) was			You pay (in 2016)
File individual tax return	File joint tax return	File married & separate tax return	
\$85,000 or less	\$170,000 or less	\$85,000 or less	\$121.80
above \$85,000 up to \$107,000	above \$170,000 up to \$214,000	Not applicable	\$170.50
above \$107,000 up to \$160,000	above \$214,000 up to \$320,000	Not applicable	\$243.60
above \$160,000 up to \$214,000	above \$320,000 up to \$428,000	above \$85,000 and up to \$129,000	\$316.70
above \$214,000	above \$428,000	above \$129,000	\$389.80

Medicare.gov
The Official U.S. Government Web Site for Medicare

Does the 3.8% Net Investment Income Tax (NIIT) Apply to You?

- NIIT applies to the lesser of your net investment income, or the amount by which your modified adjusted gross income exceeds the statutory threshold amount based on filing status.
- The statutory threshold amounts are:
 - Married filing jointly — \$250,000,
 - Married filing separately — \$125,000,
 - Single or head of household — \$200,000, or
 - Qualifying widow(er) with a child — \$250,000.
- In general, net investment income includes, but is not limited to: interest, dividends, capital gains, rental and royalty income, and non-qualified annuities.

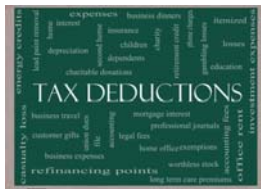
3.8% Net Investment Income Tax

- To arrive at net investment income, gross investment income is reduced by properly allocable deductions
 - Investment interest expense
 - Investment advisory and brokerage fees
 - Expenses related to rental and royalty income
 - State and local income taxes properly allocable to items included in NII

Be proactive with your tax reporting...

TAKE ALL THE DEDUCTIONS YOU'RE ENTITLED TO...

BUT ALSO MAKE SURE YOU CORRECTLY REPORT ALL YOUR INCOME...



Consider...



- Harvest capital losses
- Secure a loss deduction for nearly worthless securities
 - You can deduct a loss on worthless securities only if you can prove the investment is completely worthless; is doesn't count if you still own the security and it has any value at all.
- Boost charitable contributions with a donor-advised fund

Consider...

- Accelerate Deductions and Defer Income
 - "Bunch" deductions into the year you get a better benefit; alternate itemizing v. standard deductions
- Does making Roth IRA conversions still make sense? *[For some taxpayers it does]*
- In danger of an underpayment of estimated tax penalty? Look for withholding sources...

Questions?