2015 YEAR-END TAX PLANNING TIPS

Year-end Planning for Income Taxes is Critical!
More Than 50 Popular Tax Benefits Expired at the End of 2015

2015 is coming to a close; however you still have time to avoid big surprises at tax-time next year. We suggest that you start year-end planning now by finding time to read through this newsletter as soon as you can. It's filled with tax-saving ideas, many of which won't work if you wait too long.

This has been another light year of tax legislation, but what passed has significantly affected business and personal taxes. Additionally, more than 50 popular tax provisions expired at the end of 2014 that Congress has failed to extend. In mid-December 2015, the same Congress returns to take action on the tax extender legislation. Eventually many tax breaks will be retroactively reinstated and extended. Which benefits will get the okay, let alone when an extender bill will pass, is anyone's guess. Should Congress deadlock again and the extender bill doesn’t pass until 2016, the IRS says that the 2015 tax return filings and tax refunds will both be delayed.

For Individuals: These include: the option to deduct state and local sales and use taxes instead of state and local income taxes; the above-the-line deduction for qualified higher education expenses; the ability to deduct up to $2 million of mortgage debt forgiveness; and tax-free distributions by those age 70 1/2 or older from IRAs for charitable purposes.

For Businesses: Expired tax breaks include: 50% bonus first-year depreciation for most new machinery, equipment, and software; an increase to $500,000 expensing limitation; and the 15-year write-off for qualified leasehold improvements, qualified restaurant buildings, improvements and qualified retail improvements.

Important Items for 2015

- **Standard Mileage Rates for 2015**: The optional standard mileage allowance for owned or leased autos (including vans, pickups or panel trucks) for business travel taking place in 2015 is 57.5¢ per mile. The 2015 rate for using a car to get medical care, or in connection with a move that qualifies for the moving expense deduction, is 23¢ per mile. The rate for using a car for 2015 charitable purposes remains at 14¢ per mile. The 2016 standard mileage rates are expected to be announced by the IRS in December.

- **College tuition statements**: are not completely accurate. We recommend getting the college tuition statement and an account statement from the college. This is not the grade transcript, but rather an accounting of classes, cost and record of payments.

- **Reporting Changes in Circumstances**: If you purchased health insurance coverage through the Health Insurance Marketplace, you may be receiving advance payments of the premium tax credit in 2015. It is important that you report changes in circumstances to your Marketplace so you get the proper type and amount of premium assistance. Some of the changes that you should report include changes in your income, employment, or family size. Advance credit payments help you pay for the insurance you buy through the Marketplace. Reporting changes will
help you avoid getting too much or too little premium assistance in advance.

- **Individuals and Dependents Must Have Health Insurance:** Beginning in 2014, the 2010 health care reform law (sometimes called the ACA) required individuals and their dependents to have health insurance that includes minimum essential coverage or pay a penalty. Some taxpayers will qualify for an exception from this “individual mandate”. Others already have qualifying coverage obtained through the individual market, through a government-sponsored exchange or through an employer-provided plan. Still others have coverage through a government program such as Medicare or Medicaid. For lower-income individuals who obtain health insurance at the Healthcare Marketplace, a premium tax credit and cost-sharing reductions may be available to help offset the costs.

- **The shared responsibility payment or penalty for 2015:** For each person on the tax return the penalty is the greater of $325 (half that per child) or 2% of income. The 2016 rates increase dramatically to the greater of $695 per person (half that per child) or 2.5% of income.

- **No shared responsibility payment or penalty:** If the insurance premium for 2015 is more than 8.05% of your 2015 income. A dollar in insurance premium or income can make a big difference. For example: if your insurance premium is $3000 per year and income is $37,261, you would probably qualify for no penalty. If income is $37,262 (a difference of only $1) the penalty would be $325 per person.

- **Depreciation Expensing:** Unless Congress changes the rules, for tax years beginning in 2015, the dollar limit for expensing fixed asset purchases will drop to $25,000. The beginning-of-phase-out amount will drop to $200,000. The 50% bonus first-year depreciation generally won’t be available unless Congress acts to extend it.

- **The 3.8% Medicare Investment Income Tax:** Higher earning taxpayers need to plan for the 3.8% Medicare tax on net investment income. This tax beginning in 2013 was created as part of the Health Care Act. It comes into play when your modified adjusted gross income is over $250,000 for joint filers or surviving spouses, $125,000 for married individuals filing a separate return, and $200,000 in any other case. By deferring net investment income or reducing modified adjusted gross income or both, this tax might be minimized or avoided altogether.

- **The 0.9% Medicare Tax:** The Health Care Act also added another tax beginning in 2013. The additional 0.9% Medicare (hospital insurance) tax that applies to individuals receiving wages in excess of $200,000 ($250,000 for married couples filing jointly and $125,000 for married couples filing separately). This tax will be withheld by your employer in many cases, but multiple employers for one taxpayer or non-working spouse situations creates special tax calculations.

- **Underwater on Your Home?:** If you are currently underwater on your home (you owe more than your home is worth) and you are considering selling or getting a loan modification, you might want to wait a little longer. Qualified mortgage debt relief from your lender discharged in 2015 will be considered taxable income. If Congress extends a previous tax benefit and makes it retroactive, any debt discharged on or after January 1, 2015, will not be considered income and taxes will not be owed on the amount forgiven.

- **House flipping:** If the intent when buying a house is to fix it up and sell immediately, that would be considered a business and the gain would be taxable. If the intent when buying the house is for investment, the subsequent sale would be taxable at the lessor capital gains rate. An example is a couple has about $90,000 income, the federal regular tax rate is 15% plus social security at 15.3%, while capital gains rate would be zero.

- **Pre-business planning expenses** are only deductible when the proposed business is operating. So a taxpayer cannot travel to Florida in January to check into opening a business there and deduct expenses as a tax deduction unless business actually opens.
2015 Year-End Tax Planning Moves for Businesses & Business Owners

- **New IRS Rules about When to Capitalize and When to Repair:** Effective for taxable years beginning on or after January 1, 2014, the IRS finalized regulations that determine when taxpayers should capitalize or deduct as a current expense repairs on tangible property, plus the deductibility of materials and supplies. A deduction for materials and supplies is allowed under a de minimis rule that includes property that has an acquisition or production cost of $200 or less. The regulations allow most taxpayers to expense all items costing $500 or less under the new de minimis rules. Beginning in 2016 this has been increased to $2,500.

- **Consider Selling Rather Than Trading Your Business Automobile:** Before trading in your business automobile when purchasing a different vehicle, call our office to discuss whether an outright sale might be more advantageous. Because of depreciation restrictions on automobiles, a sale might result in a deductible tax loss while a trade may not.

- **S Corporation Election:** Consider incorporating and electing S Corporation status or, if your business is already incorporated, consider switching from C to S corporation status. Doing so will avoid federal and state double taxation on business income and recognized gains at the time of a future sale or liquidation. (C corporations pay corporate tax on their taxable income and then any dividend paid to shareholders is taxed again at the shareholder level.)

Once your business converts from C to S status, a 10-year period must pass before a future sale or liquidation can completely escape double taxation.

- **Hobby:** If you have a business that may be a hobby, the income is regular income and the deductions are an itemized deduction. Thus you would lose most of the deductions. The first step is you must have a profit motive for activities such as Mary Kay, Tupperware, Pampered Chef, Thirty One, etc.

2015 Year-End Tax Planning Moves for Individuals

- **Employer’s Health Flexible Spending Account:** If you put too little into your employer’s health flexible spending account (FSA) this year, increase the amount you set aside for next year. If your employer takes advantage of an FSA option, you may be able to carryover $500 into the following year. If you become eligible to make health savings account (HSA) contributions in December of this year, you can make a full year’s worth of deductible HSA contributions for 2015. If you are not a participant in your employer’s flexible spending account, consider electing to participate during the next enrollment period. These plans use pre-tax dollars to pay your medical expenses. Often described as “free money”.

- **Estimated Income Tax:** If you receive income that’s not subject to withholding, you may need to pay estimated tax. This may include income such as self-employment, interest, or rent. If you expect to owe a thousand dollars or more in tax, and meet other conditions, you may need to pay this tax. You would normally pay the tax four times a year. The final estimated tax payment for 2015 is due on January 15, 2016, but may create a tax deduction on your 2015 tax return if the estimate is paid by December 31, 2015 (rather than a 2016 tax deduction).

- **Convert to a Roth IRA:** If you want to remain in the market for the long term, a Roth IRA might be better for you than a traditional IRA. Providing that you are eligible to do so, consider converting your traditional IRA money invested in stocks (or mutual funds) into a Roth IRA. Keep in mind, however, that such a conversion will increase your adjusted gross income and tax liability for 2015 and could impact various income tax deductions and credits for those with higher income.

- **Defer Income to 2016:** Postponing income is also desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. In some cases, it may pay to actually accelerate income into 2015. That may be the case where a person’s marginal tax rate is much lower this year than it will be next year or where lower income in 2016 will result in a higher tax credit for an individual who purchases health insurance and is eligible for a premium assistance
credit. Keep in mind that delaying 2015 income into 2016 might push you into a higher tax bracket next year or have a detrimental impact on various income tax deductions that are reduced at higher income levels.

- **Substantiating Charitable Contributions:** When making contributions of cash, check, or other monetary gift, regardless of amount, you must maintain a bank record or a written communication from the charity. If the contribution is $250 or more you must maintain a contemporaneous written receipt from the charitable organization with a statement that no goods or services were received for the donation.

- **Balance Stock Gains and Losses:** If you have taken losses on stock sales in 2015 and you have investments that have appreciated in value, you should consider selling if you believe the values have peaked, and thereby offset gains with your pre-existing losses.

- **Accelerate deductions into 2015 to lower your 2015 tax bill:** This strategy might enable you to claim larger deductions, credits, and other tax breaks for 2015 that otherwise are phased out over varying levels of adjusted gross income (AGI). These include child tax credits, higher education tax credits, and deductions for student loan interest. Consider using a credit card to pay deductible expenses to increase your 2015 deductions even if you don’t pay the credit card bill until after year end.

- **Pay First Quarter Education Expenses Early:** Unless Congress extends it, the up-to-$4,000 above-the-line deduction for qualified higher education expenses will not be available for 2015. If extended, consider prepaying 2016’s first quarter eligible expenses in 2015.

- **Don’t Forget Your Required Minimum Distributions:** Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retirement plan) if you have reached age 70 ½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn timely. This may also apply to inherited retirement accounts.

- **Make Annual Gifts to Individuals:** Consider making gifts to family. The annual gift tax exclusion for 2015 is $14,000. You can make gifts of this size or less to an unlimited number of individuals. Consider strategies like helping children and grandchildren fund ROTH IRA’s as a way to transfer wealth. In addition, paying qualified higher education expenses (tuition) directly for someone is not subject to the annual gift exclusion.

- **Employer Retirement Plan:** At your employer’s next benefits enrollment period, consider enrolling in your available retirement plan that allows employee deferrals. If you’re already a participant, consider increasing your retirement deferrals.

- **New taxes:** A couple of college institutes are considering recommending taxing soda, sweets and junk foods (like tax on cigarettes). What an idea, raising taxes and, in theory, improves the obesity problem.

- **Reverse Mortgages:** We strongly recommend not getting involved. There is no interest deduction and must have a clause that if payment late by more than 30 days, the banks get the house.

**Additional information:**

- A flat tax could end up taxing Roth IRA distributions.

- Farmers can deduct prepaid expenses as long as there is “no material distortion of income” – What’s that?

- Bartering income is taxable income. The taxpayer is to report bartering income as income and if the bartering was for a tax deductible expense, deduct it as an expense (like custom hire, rent, repairs, feed, etc.)

- The tax deductible gift limit is **$25 per year** per customer for business promotion.

- Filing an extension is NOT a payment extension. If filing an extension for more time to assemble tax documents, consider making a payment with the extension if you anticipate owing income tax.

- A custodial parent is the parent who has a child stay with them the most nights per year or at least 183 nights. The noncustodial parent needs to obtain Form 8332 to accompany their tax return. The divorce degree along with proof of payment of child support may no longer qualify to get the tax deduction.
• There can only be one head of household per home.

• You can obtain a copy quickly of your social security statement (and other information) by signing up thru www.socialsecurity.gov/myaccount.

• A voluntary payment to pay down the national debt is a donation, but political contributions are not a donation.

• IRS service update – During 2015, the IRS answered 37% of phone calls (down from 71% in 2014) with average hold time of 23 minutes. The Taxpayer Protection Program that handles Identity theft answered 17% of calls with average wait time of 28 minutes and courtesy disconnects of 8.8 million phone calls.

• A taxpayer who gave blood 95 times throughout one year was considered to be in business and had to pay income tax and social security on that income.

• On March 2, 2015, the IRS National Taxpayer Advocate indicated tax returns for some individuals who purchased insurance thru state exchanges were being held in suspense for matching data from the states. The IRS instructed its employees not to inform the taxpayers why. This is why we have trust issues with the IRS.

Identity Theft incarcerated individuals
Senita Dill and Ronald Knowles of Charlotte, NC filed over 1000 false tax returns for $3,978,211 and are now serving 27 years.
Mauricia Warner of Atlanta, GA filed over 5000 false tax returns for $5,041,869 and is now serving 20 years.
Ogiesoba Osula of Dallas, TX filed false tax returns for $15.9 million and is serving over 17 years.
Kevin Cimeus of Miami, FL filed over 1000 false tax returns and when caught, had 2400 more stolen ID’s to file lots more – is now serving 13 years.

Roma Simms of Columbus, OH filed 977 false tax returns for $3,517,534 and is serving 9 years.
Mahamadou Daffe of Queens, NY filed over 1000 false tax returns and is serving 9 years.
Harvey James of Montgomery, AL filed over 1000 false tax returns for over $1,000,000 and is serving 9 years.
Joel and Abel Santana-Pierna filed over 3000 false tax return for $559,755 is are serving 11 years.
Tanya Fox of Orlanda, FL filed false tax returns for $4,055,735 and is serving 20 years.
Jonathan Webster of Columbus, OH filed over 500 false tax returns for $1,457,936 and is serving 9 years.

It appears that there really is an identity theft problem.

Please make sure you have reviewed the information we mailed to you in mid-December to help us get your 2015 tax return prepared accurately and expediently. If you would like an organizer for assistance, please contact us.

Appointment Schedule for 2016: We are scheduling appointments starting January 18, 2016. We will discontinue taking appointments after April 9, 2016 in order to complete those tax returns that are in process before the due date. We can file an extension for you, upon request, but the extension is an extension of time to file, not an extension of time to pay.

Collins Consulting Staff: The current tax season staff is the same personnel as last year which includes Justin Horton and Norm Collins preparing tax returns along with staff of Lindsay Anderson, Paige Temeyer, Moriah Bees, Brenda Jacobs, Shirley Fonda, Emmalee and Donna Collins.

Thank You!
Your business is appreciated.