2015 Tax Updates

Do you have medical expenses you pay without receiving a tax benefit?
If so, you are not alone. You may be eligible to set up a health savings plan allowing the contributions to be tax-deductible. You must have a high-deductible health plan that is compatible with a health savings account. The money in the plan can then be used to pay your medical expenses (but not your insurance premiums). If you are interested in a health savings account, make sure that you are eligible by checking with your insurance company. If you have an account set up and ready to make contributions by December 1, 2015, you can make a full year’s worth of deductible contributions for 2015.

One IRA Rollover per year
Beginning in 2015, you can only make one single rollover from any of your IRA accounts in a 12 month period. You can still make as many “trustee-to-trustee” transfers as you wish as long as you are moving the money directly from one provider to another and never have access to the money.

If you had an IRA rollover in 2015, double-check the 1099 R form you receive in January 2016 to make sure that the form shows code G for rollover. These forms are often incorrect! If your 1099R form shows the incorrect code, please let us know.

Are you getting paid to care for someone in your home?
A new law has been passed allowing taxpayers to exclude certain wages from being taxed. You must be paid to give non-skilled medical support services to a person living in your home who has a physical, mental, or emotional issue. If the payments are received from the state or a certified Medicaid provider, the payments can likely be excluded from your taxable income. The law has recently been updated to allow the person you are caring for to be a relative.

Do you have a college student receiving a Pell Grant?
Previously, a Pell Grant would reduce the amount of education expense you could use to claim education credits on your tax return. The law has now changed allowing the Pell Grants to be allocated to living expenses, possibly increasing the education expense amount and education credit available. Please let us know if your college student received a Pell Grant.
2015 Tax Updates

New myRA’s are now available
The myRA’s are retirement accounts offered through employers. The “My Retirement Account” charges no fees and offers modest, guaranteed growth. An employee can start an account with just $25 and add as little as $5 at a time.

Estate tax Limits
The estate tax limit has risen to $5,430,000. The estate of a deceased taxpayer will not pay estate tax if the value of all assets is under this limit.

Pay Expenses with a Credit Card for an Immediate Tax Deduction
Did you know that you can pay your tax-deductible expenses with a credit card before the end of the year and the deduction counts for 2015? The credit card bill does not have to be paid until 2016 to qualify for a 2015 tax deduction.

Auto Mileage Rate

2015 Mileage Rates:

<table>
<thead>
<tr>
<th>Category</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>57.5 cents per mile</td>
</tr>
<tr>
<td>Charitable</td>
<td>14 cents per mile</td>
</tr>
<tr>
<td>Medical and Moving</td>
<td>23 cents per mile</td>
</tr>
</tbody>
</table>

Tracking your mileage, particularly for your business, can yield a large tax deduction. You are required to keep a detailed mileage log to support your tax deduction. If you aren’t tracking your mileage, you may be losing hundreds or thousands of dollars a year in tax savings! There are several apps that you can use on your phone to track your mileage, many of which will synch with your computer and produce a printable log.
Affordable Care Act Update Information

**Health Insurance Penalties**

In 2015, the penalty for not having health insurance increases to the larger of 2% of annual household income, or $325 per person ($162.50 for children under 18). The penalty increases for 2016, so those that need to get coverage should go on the Health Insurance Marketplace at healthcare.gov and try to enroll. The penalty for 2016 is the larger of either 2.5% of annual household income or $695 per person ($347.50 for children under 18).

**New Forms you Should Expect to Receive**

There will be forms issued to you in January by your health insurance company, your employer, or benefits administrator that show your 2015 health insurance information. Please bring Forms 1095-A, B, or C with you when having your taxes prepared. Every person who had health insurance during 2015 will receive one of these forms, and we must have the form in order to complete your 2015 taxes. Form 1095-A is extremely important for those receiving a premium tax credit. Form 8962 needs to be filled out on your tax return each year to determine if you received too much or too little of an advanced premium payment.

**Employer Penalties for any size employer**

Employers who reimburse employees for their individual health insurance premiums or pay the individual premium on the employee’s behalf will be subject to penalties of $100 per day. If you believe you may fall into this category, please contact us right away to discuss your situation.

**Large Employer Penalties**

Effective for 2015, employers with 50 or more full-time equivalent employees are required to offer affordable, minimal essential coverage to their employees or pay a penalty. There is also a penalty for a large employer who has at least one employee buy coverage through the marketplace and receive a premium tax credit. Please contact our office if you need more information on the large employer penalties.

**Net Investment Income Tax**

The Affordable Care Act added a 3.8% surtax on passive or investment income. This is calculated by taking the LESSER of net investment income multiplied times 3.8% OR the modified adjusted gross income in excess of $250,000 for joint filers ($200,000 for most other filers) and multiplying that amount over the threshold by 3.8%.

**Additional Medicare Tax**

The Affordable Care Act added a .9% tax on wages and self-employment income in excess of $250,000 for joint filers ($200,000 for most other filers).

Tax Deductions Pending Final Approval

The following deductions and tax breaks have passed the Senate, but have not been finalized as law yet. They are expected to be passed into law around December 2015, but we cannot be certain the following will be available for 2015. We will update this information as new information becomes available.

Did you pay Sales tax on a new car or boat in 2015?

If you normally itemize deductions, you may deduct the larger of your state income tax payments or your sales taxes. In states with no income tax this is a big win. Even in states with income tax, the sales tax deduction might be larger. Tables give a sales tax figure based on your income. However, you can add any sales tax paid on a purchase of a new vehicle, boat, or airplane.

Taxpayers over age 70 ½ who don’t itemize deductions

An IRA owner can make a direct transfer out of their IRA to a charity and not pay tax on the transfer. This is a great deal for taxpayers who give money to charity, but don’t have enough itemized deductions to take advantage of the charitable contribution deduction. Taxpayers must be 70 ½ to take advantage of this.

$250 Tax Deduction for Teacher’s Supplies

Exclusion of up to 2 million of Mortgage Debt Forgiveness Income on a Personal Residence

Mortgage insurance Premium deduction for certain taxpayers

Tuition and Fees Deduction (different from the other education credits available).

Bonus Depreciation deduction allowing the expensing of half of most new equipment purchased by a business.

Section 179 Business Expensing of Depreciable Assets, with a maximum deduction of $500,000 if you purchase less than $2 million of equipment. The Section 179 expensing maximum deduction is scheduled to go back to a $25,000 limit. You must have profit in your business in order to take this deduction. This deduction cannot create a net loss for your business.
Alternative Minimum Tax

Alternative minimum tax was a system put in place in 1970 to ensure that those with high income weren’t able to take too many deductions and pay very little tax. Over time, a tax system put in place for the “rich” is now affecting many upper middle class taxpayers. The AMT tax system does not allow some of the deductions that the “regular” tax system does. If a taxpayer ends up with higher AMT tax than regular tax, they must pay the higher tax rate.

Factors that put you at risk for AMT:

- High income
- Large unreimbursed employee business expenses
- Exercise of incentive stock options and not selling the stock that year
- Living in states with high income/real estate taxes
- Large miscellaneous deductions
- Having a large family
- High medical expenses
- Having large capital gains
IRS News

IRS Budget Shortfalls

According to a 2015 report by the IRS Commissioner, the IRS is at the lowest level of funding since 2008. If you were to adjust for inflation, the current IRS budget is comparable to the budget in 1998. The IRS phone service level is poor due to lack of personnel. More than 6 out of 10 people that called during tax season were unable to reach the IRS by phone. What does this mean for taxpayers? If you have a tax issue, expect long delays from the IRS in answering letters. Your CPA may even have difficulty reaching the IRS. Be patient and forward all letters you receive to our office.

IRS Impersonator Scams

The IRS is urging taxpayers to be careful about phone calls, emails, or letters received claiming to be from the IRS. If you receive any of the above, please forward that information to our office. The IRS will never contact you by phone unless they have sent you several letters already.

Some things to know about the IRS:

The IRS will never:

1. Angrily demand immediate payment over the phone, and they won’t call you about taxes due without first having mailed you a bill.
2. Threaten to bring in police to have you arrested for not paying your taxes.
3. Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say is owed.
4. Require that you pay by a specific method, such as a prepaid debit card.
5. Ask for credit or debit card numbers over the phone.

Tax Return Identity Theft

Identity theft in tax filing has become a growing problem for taxpayers and the IRS. This occurs when someone uses your Social Security number to file a tax return to claim a fraudulent refund. Please notify our office right away if you receive a notice asking if you filed a tax return or stating that someone else filed under your social security number.

It is very important to protect not only your social security number, but also your business EIN number. There are also individuals filing fraudulent payroll tax returns under a business’ name and EIN number.

Be very careful about who you give your social security number to. Shred all documents, and don’t email documents containing your EIN or social (not even with a password as this can be decoded very quickly). We offer a secure web portal to exchange sensitive information. If you aren’t familiar with our portal, please ask.
IRS Foreign Account and Assets Enforcement Efforts

IRS Foreign Account Tax Compliance Act

The IRS continues to focus on stopping offshore tax evasion. The IRS has conducted thousands of offshore-related civil audits producing tens of millions of dollars. They have also pursued criminal charges leading to billions of dollars in fines and restitutions. Reporting foreign assets and foreign accounts needs to be taken seriously. If you have foreign assets or any kind of foreign accounts, please contact our office to discuss your reporting requirements. The IRS is now able to exchange financial account information with some of the other foreign tax administrations.

Foreign Account Reporting Requirements

1. A person whose name is on a foreign account, is a joint owner, has financial interest or a signature authority over a foreign account.
2. FinCen 114 is required if the aggregate value of the foreign accounts exceeded $10,000 at any time during the calendar year.
3. A foreign account can include, but is not limited to, a securities, brokerage, savings, demand, checking, deposit, time deposit, or other account maintained with a financial institution. It can also include a commodity futures or options account, an insurance policy with cash value, an annuity with cash value, and shares in a mutual fund or similar pooled fund.

Foreign Asset Reporting Requirements

1. U.S. citizens, U.S. residents, and certain non-resident aliens that have an interest in foreign financial assets.
2. Form 8938 is filed with your tax return
3. Reporting thresholds for taxpayers living in the US
   a. Unmarried taxpayers-Assets of $50,000 on the last day of tax year, or more than $75,000 at any time during the year.
   b. Married filing jointly-Assets of $100,000 on the last day of tax year, or more than $150,000 at any time during year.
   c. Married filing separate-Assets of $50,000 on the last day of tax year, or more than $75,000 at any time during the year.
4. Reporting thresholds for taxpayers living outside the US
   a. Unmarried taxpayers-Assets of $200,000 on the last day of tax year, or more than $300,000 at any time during the year.
   b. Married filing jointly-Assets of $400,000 on the last day of the tax year, or more than $600,000 at any time during the tax year.
   c. Married filing separate-Assets of $200,000 on last day of the tax year, or more than $300,000 at any time during the tax year.
5. Assets include, but are not limited to, value of interest in a foreign trust, estate, pension plan, deferred compensation plan, financial accounts, and an interest in a foreign entity.
6. Non-reportable assets include a personal residence, rental properties, art, antiques, jewelry, cars if considered to be personal property.