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Introduction

At IRSTaxTraining.com, Inc. we focus on customer service and satisfaction. It is important to us that you are apprised of important tax legislation changes that may have occurred since you completed your continuing professional education (CPE) course. This course supplement is designed to acquaint you with new tax developments that have occurred since our original course publication.

This supplement focuses on key Federal tax law provisions recently enacted or indexed for inflation. Among other topics, this supplement includes information about the Annual Filing Season Program, Affordable Care Act, common tax credits, and retirement plan limitations.

All 2015 legislative amendments and changes received as of press time are reflected, and references to Federal tax laws are up-to-date as of the publication of this course. The focus is on tax law applicable to the filing of income tax returns in 2016 for the 2015 tax year.

Understanding the Icons Used in this Book

- **Important**: Update or change
- **Tip**: Significant information
- **Note**: Additional information

IRSTaxTraining.com, Inc. is an approved education provider for the California Tax Education Council (CTEC). Our provider number is 6224 and can be confirmed at www.CTEC.org. Our IRS provider number is RP5CH and can be verified at the IRS list of Approved Continuing Education Providers under 101 Educations Services, Inc. dba IRSTaxTraining.com. Our NASBA National Registry Number is 125385 and can be verified by visiting the NASBA Confirm Registry CPE Sponsor Status website.
2015 Federal Tax Legislation and Continuing Changes

What’s New

Protecting Americans from Tax Hikes Act of 2015 (PATH)

A large number of expired tax provisions have been retroactively extended by the Protecting Americans from Tax Hikes Act of 2015 (the PATH Act). Some tax breaks have been made permanent, some have been retroactively extended through 2019, and some have been retroactively extended through 2016. The following is a list of the key provisions.

Tax provisions made permanent:

- Child Tax Credit.
- American Opportunity Tax Credit.
- Earned Income Tax Credit.
- Above-the-line deduction for certain expenses of elementary and secondary school teachers.
- Deduction for state and local general sales taxes.
- Enhanced mass transit and parking pass benefits.
- Qualified charitable distributions from individual retirement plans.
- Research and Development Credit (base credit, 14% ASC, AMT and Payroll provisions).
- Section 179 expensing ($500,000 and $2 million limits, no limitation on real estate).
- An exclusion of 100% of gain on certain small business stock.
- The S corporation recognition period for built-in gains tax to five years.

Tax provisions retroactively extended through 2019:

- Bonus depreciation (50% for 2015-17, 40% in 2018, 30% in 2019).
- First year bonus depreciation on automobiles.
- Work Opportunity Tax Credit.
- New Markets Tax Credit.

Tax provisions retroactively extended through 2016:

- Above-the-line deduction for qualified tuition and related expenses.
- Nonbusiness Energy Property Credit.
- Cancellation of Debt (COD) principal residence exclusion.
- Mortgage insurance premiums treated as qualified residence interest.
- Film and television productions deduction.

Affordable Care Act Taxes

The Protecting Americans from Tax Hikes Act of 2015 also contains many other tax items, including delaying for two years the imposition of the so-called Cadillac health care tax under Section 4980I and the 2.3% medical device excise tax under Section 4191, which would not apply to sales during 2016 and 2017.

Health Coverage Tax Credit (HCTC)

The Health Coverage Tax Credit, which was claimed on Form 8885 - Health Coverage Tax Credit, has been reinstated retroactive to January 1, 2014. The taxpayer can take the HCTC for 2015 if he or she was an eligible trade adjustment assistance (TAA) recipient, alternative TAA (ATAA) recipient, reemployment TAA (RTAA) recipient, Pension Benefit Guaranty Corporation (PBGC) pension payee, or qualifying family member.

Reporting Health Coverage

If the taxpayer or someone in his or her family had health coverage in 2015, the provider of that coverage is required to send a Form 1095-A, 1095-B, or 1095-C (with Part III completed) by January 31, 2016, that lists individuals in his or her family who were enrolled in the coverage and shows their months of coverage. The taxpayer should use this information to help complete his or her return. The taxpayer does not need to attach these forms to his or her return.
The taxpayer may have had health care coverage for some or all of 2015 even if he or she did not receive a form with this information.

**Health Care Individual Responsibility Payment**

If the taxpayer or someone in his or her household did not have qualifying health care coverage or qualify for a coverage exemption for one or more months of 2015, the amount of his or her shared responsibility payment may be much higher this year than it was last year. Like last year, the taxpayer must do one of the following.

- Indicate on his or her tax return that he or she, his or her spouse (if filing jointly), and anyone he or she can or does claim as a dependent had qualifying health care coverage throughout 2015.
- Claim an exemption from the health care coverage requirement for some or all of 2015 and attach Form 8965 to his or her return.
- Make a shared responsibility payment if, for any month in 2015, he or she, his or her spouse (if filing jointly), or anyone he or she can or does claim as a dependent did not have coverage and does not qualify for a coverage exemption.

**Advance Payments of the Premium Tax Credit**

If the taxpayer or a family member enrolled in health insurance through the Marketplace and advance payments of the Premium Tax Credit were made to his or her insurance company to reduce his or her monthly premium payment, the taxpayer should attach Form 8962 to his or her return to reconcile (compare) the advance payments with his or her Premium Tax Credit for the year, which the taxpayer figures on Form 8962. The Marketplace is required to send Form 1095-A by January 31, 2016, listing the advance payments and other information the taxpayer needs to figure his or her Premium Tax Credit. The taxpayer should use Form 1095-A to complete Form 8962. Also the taxpayer should attach Form 8962 to his or her return. The taxpayer does not attach Form 1095-A to the income tax return.

**Achieving a Better Life Experience (ABLE) Account**

The Achieving a Better Life Experience (ABLE) account is a new type of savings account for individuals with disabilities and their families. For 2015, contributions totaling up to the annual gift tax exclusion amount, currently $14,000, may be made to an ABLE account each year (subject to a cumulative limit), and distributions, including earnings, are tax-free to the designated beneficiary if used to pay qualified disability expenses. These expenses can include housing, education, transportation, health, prevention and wellness, employment training and support, assistive technology and personal support services and other disability-related expenses. The taxpayer does not deduct his or her contributions on his or her income tax return.

**Tax Return Due Date**

The April 15 tax deadline is set by statute and will remain in place. However, the IRS reminds taxpayers that anyone can request an automatic six-month extension to file their tax return. The request is easily done with Form 4868 - Application for Automatic Extension of Time To File U.S. Individual Income Tax Return, which can be filed electronically or on paper.

The District of Columbia typically observes Emancipation Day (the day President Abraham Lincoln signed into law a bill ending slavery in Washington, D.C.) on April 16. However, April 16 falls on a Saturday in 2016, so Emancipation Day will be celebrated on Friday, April 15. This makes Monday, April 18, 2016 the ordinary due date for filing 2015 income tax returns.

**Reminders**

**Annual Filing Season Program (AFSP)**

The IRS is offering a voluntary Annual Filing Season Program (AFSP) to return preparers starting in the 2015 filing season. To obtain the voluntary certification, credentialed tax preparers (CPA, attorney, enrolled agent, etc.) or tax return preparers who have successfully completed a national or state test (RTRP, CTEC, OBTP, DLLR, Part 1 of the SEE, etc.) would need to have an active Preparer Tax Identification Number (PTIN) and complete 15 credit hours of continuing professional education annually through an IRS approved provider. The deadline to complete the AFSP is December 31st of each year.
Continuing Professional Education Course Supplement

Non-credentialed/non-exempt or unenrolled return preparers must complete an 18 hour course consisting of 2 hours of Ethics and Professional Conduct, 10 hours Federal taxation and a 6 hour Annual Federal Tax Refresher (AFTR) course that includes a 100 question comprehension test with a 3 hour time limit.

Unenrolled return preparers can elect to voluntarily take continuing professional education each year in preparation for the filing season and receive an Annual Filing Season Program – Record of Completion.

The program is important for a number of reasons. It encourages unregulated return preparers who do not have to meet continuing professional education requirements to stay up-to-date on tax laws and changes. It helps lessen the risk to taxpayers from preparers who have no education in Federal tax law or filing requirements. And it allows preparers without professional credentials to stand out from the competition by giving them a recognizable record of completion that they can show to their clients.

Preparers who complete the AFSP will also be included in a public directory that will be added to IRS.gov each year for taxpayers to use in searching for qualified tax return preparers. The Directory of Federal Tax Return Preparers with Credentials and Select Qualifications will only include attorneys, certified public accountants (CPAs), enrolled agents, enrolled retirement plan agents (ERPAs), enrolled actuaries and individuals who have received an Annual Filing Season Program – Record of Completion. Also, beginning in 2016, there will be changes to the representation rights of return preparers. Attorneys, CPAs, and enrolled agents will continue to be the only tax professionals with unlimited representation rights, meaning they can represent their clients on any matters including audits, payment/collection issues, and appeals.

AFSP participants will have limited representation rights, meaning they can represent clients whose returns they prepared and signed, but only before revenue agents, customer service representatives, and similar IRS employees, including the Taxpayer Advocate Service. PTIN holders without an AFSP – Record of Completion or other professional credential will only be permitted to prepare tax returns. They will not be allowed to represent clients before the IRS.

Established state-based return preparer program participants with current testing requirements such as return preparers who are active members of the Maryland State Board of Individual Tax Preparers, the Oregon Board of Tax Practitioners and/or the California Tax Education Council are exempt from taking the Annual Federal Tax Refresher (AFTR) course. For example, the IRS has exempted California Registered Tax Preparers (CRTP) from having to take the Annual Federal Tax Refresher (AFTR) course and passing the course’s competency examination to obtain a Record of Completion because they have already demonstrated their competency by passing a 60-hour qualifying education course and annually maintaining their continuing professional education. These exempt groups are still required to meet other program requirements, including 15 CPE credits (10 Federal Tax Law, 3 Federal Tax Law Updates, and 2 Ethics).

Return preparers who can obtain the AFSP – Record of Completion without taking the AFTR course are:

- Anyone who passed the Registered Tax Return Preparer test administered by the IRS between November 2011 and January 2013.
- Established state-based return preparer program participants currently with testing requirements: Return preparers who are active registrants of the Oregon Board of Tax Practitioners, California Tax Education Council, and/or Maryland State Board of Individual Tax Preparers.
- See Part I Test-Passers: Tax practitioners who have passed the Special Enrollment Exam Part I within the past two years as of the first day of the upcoming filing season.
- VITA volunteers: Quality reviewers and instructors with active PTINs.
- Other accredited tax-focused credential-holders: The Accreditation Council for Accountancy and Taxation’s Accredited Business Accountant/Advisor (ABA) and Accredited Tax Preparer (ATP) programs.

California Tax Education Council (CTEC) education requirements will meet the IRS requirements. Therefore a CRTP in good standing will have already met all of the IRS requirements of the new program and will have a simplified process to obtain a Record of Completion. Also, a CRTP was granted the authority to represent, before the IRS, clients whose returns the CRTP prepared, as long as the CRTP is properly registered with CTEC for both the year the tax return was prepared as well as the year the review takes place.
IRS Direct Pay

IRS Direct Pay is a payment application that allows individual taxpayers with a valid Social Security Number to make IRS payments directly from their checking or savings accounts. It is free, secure and provides an electronic payment confirmation while reducing processing costs. Only Form 1040 payments and associated penalties can be made through IRS Direct Pay.

The taxpayer must have a valid Social Security Number (SSN) to use this application. This application cannot accommodate Individual Taxpayer Identification Numbers (ITINs).

IRS Direct Pay currently accepts 1040 series payments, including the 4868 (1040 Extension) and the 1040-ES (1040 Estimated Tax). Direct Pay will also accept form 5329 payments and Shared Responsibility payments. Other form types may be added in the future.

A taxpayer can make a tax payment towards a 1040 tax return for the last 20 years for most of the Reason for Payment options. There are two exceptions: Estimated Tax Payments and Requests for Extension of Time to File. Estimated Tax Payments are paid to the IRS in the current calendar year, while Requests for Extension of Time to File payments are generally for the current tax year.

Taxpayers receive instant confirmation that the payment has been submitted, and the system is available 24 hours a day, 7 days a week. Bank account information is not retained in any IRS systems after payments are completed. IRS Direct Pay also offers 30-day advance payment scheduling, payment rescheduling or cancellations, and a payment status search. Future plans include an option for e-mailed payment confirmation, a Spanish version and one-time registration with a login and password to allow quick access on return visits.

Electronic Filing ID Numbers (EFIN)

The IRS assigns an Electronic Filing ID Numbers (EFIN) to identify firms that have completed the IRS e-file Application to become an Authorized IRS e-file Provider. After the provider completes the application and passes a suitability check, the IRS sends an acceptance letter, including the EFIN, to the provider. Providers need the EFIN to electronically file tax returns. The firm owns the EFIN. The principals of the firm use either their Social Security Number or Employer Identification Number to apply for an EFIN. On their application, the firm's Doing Business As name and business address should be used, not a personal address.

The IRS announced that effective October 1, 2012, they will no longer be accepting paper applications to become an IRS e-file provider and that all applications must be submitted online. Until October 1, 2012, the IRS has allowed tax professionals to fill out Form 8633 - Application to Participate in the IRS e-file Program. With all tax preparers now submitting their applications online, the IRS estimates that the online application process takes four to six weeks to complete and urges tax professionals not to delay.

Authorized IRS e-file Providers do not have to reapply each year as long as they continue to e-file returns. However, if a Provider does not e-file returns for two consecutive years, the IRS will notify the Provider of removal from the IRS active Provider list. The IRS may reactivate a Provider if the Provider replies within sixty days and requests reactivation. Otherwise, the Provider will have to complete and submit a new application.

Providers must update their application information within 30 days of the date of any changes to the information on their current application. Make all changes using the IRS e-file Application. See Changes to Your IRS e-file Application.

The EFIN is not transferable and neither is the password. Even if an Authorized IRS e-file Provider transfers his or her business by sale, gift or other disposition, he or she may not transfer his or her EFIN. The Provider must protect his or her EFINS, Electronic Transmitter Identification Numbers (ETINs) and passwords from unauthorized use.

2015 Federal Tax Legislation

Tax Rates for 2015

The tax rate of 39.6% affects singles whose income exceeds $413,200 ($464,850 for married taxpayers filing a joint return), up from $406,750 and $457,600 in 2014. The following are tax rates for tax year 2015 based on certain filing status. (1)
### Unmarried Individuals (other than Surviving Spouses and Heads of Households)

<table>
<thead>
<tr>
<th>If Taxable Income Is:</th>
<th>The Tax Is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $9,225</td>
<td>10% of the taxable income</td>
</tr>
<tr>
<td>Over $9,225 but not over $37,450</td>
<td>$922.50 plus 15% of the excess over $9,225</td>
</tr>
<tr>
<td>Over $37,450 but not over $90,750</td>
<td>$5,156.25 plus 25% of the excess over $37,450</td>
</tr>
<tr>
<td>Over $90,750 but not over $189,300</td>
<td>$18,481.25 plus 28% of the excess over $90,750</td>
</tr>
<tr>
<td>Over $189,300 but not over $411,500</td>
<td>$46,075.25 plus 33% of the excess over $189,300</td>
</tr>
<tr>
<td>Over $411,500 but not over $413,200</td>
<td>$119,401.25 plus 35% of the excess over $411,500</td>
</tr>
<tr>
<td>Over $413,200</td>
<td>$119,996.25 plus 39.6% of the excess over $413,200</td>
</tr>
</tbody>
</table>

Table 1 - Internal Revenue Bulletin (2015)

### Married Individuals Filing Joint Returns and Surviving Spouses

<table>
<thead>
<tr>
<th>If Taxable Income Is:</th>
<th>The Tax Is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $18,450</td>
<td>10% of the taxable income</td>
</tr>
<tr>
<td>Over $18,450 but not over $74,900</td>
<td>$1,845 plus 15% of the excess over $18,450</td>
</tr>
<tr>
<td>Over $74,900 but not over $151,200</td>
<td>$10,312.50 plus 25% of the excess over $74,900</td>
</tr>
<tr>
<td>Over $151,200 but not over $230,450</td>
<td>$29,387.50 plus 28% of the excess over $151,200</td>
</tr>
<tr>
<td>Over $230,450 but not over $411,500</td>
<td>$51,577.50 plus 33% of the excess over $230,450</td>
</tr>
<tr>
<td>Over $411,500 but not over $464,850</td>
<td>$111,324 plus 35% of the excess over $411,500</td>
</tr>
<tr>
<td>Over $464,850</td>
<td>$129,996.50 plus 39.6% of the excess over $464,850</td>
</tr>
</tbody>
</table>

Table 2 - Internal Revenue Bulletin (2015)

### Married Individuals Filing Separate Returns

<table>
<thead>
<tr>
<th>If Taxable Income Is:</th>
<th>The Tax Is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $9,225</td>
<td>10% of the taxable income</td>
</tr>
<tr>
<td>Over $9,225 but not over $37,450</td>
<td>$922.50 plus 15% of the excess over $9,225</td>
</tr>
<tr>
<td>Over $37,450 but not over $75,600</td>
<td>$5,156.25 plus 25% of the excess over $37,450</td>
</tr>
<tr>
<td>Over $75,600 but not over $115,225</td>
<td>$14,693.75 plus 28% of the excess over $75,600</td>
</tr>
<tr>
<td>Over $115,225 but not over $205,750</td>
<td>$25,788.75 plus 33% of the excess over $115,225</td>
</tr>
<tr>
<td>Over $205,750 but not over $232,425</td>
<td>$55,662 plus 35% of the excess over $205,750</td>
</tr>
<tr>
<td>Over $232,425</td>
<td>$64,998.25 plus 39.6% of the excess over $232,425</td>
</tr>
</tbody>
</table>

Table 3 - Internal Revenue Bulletin (2015)

### Heads of Household

<table>
<thead>
<tr>
<th>If Taxable Income Is:</th>
<th>The Tax Is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $13,150</td>
<td>10% of the taxable income</td>
</tr>
<tr>
<td>Over $13,150 but not over $50,200</td>
<td>$1,315 plus 15% of the excess over $13,150</td>
</tr>
<tr>
<td>Over $50,200 but not over $129,600</td>
<td>$6,872.50 plus 25% of the excess over $50,200</td>
</tr>
<tr>
<td>Over $129,600 but not over $209,850</td>
<td>$26,772.50 plus 28% of the excess over $129,600</td>
</tr>
<tr>
<td>Over $209,850 but not over $411,500</td>
<td>$49,192.50 plus 33% of the excess over $209,850</td>
</tr>
<tr>
<td>Over $411,500 but not over $439,000</td>
<td>$115,737 plus 35% of the excess over $411,500</td>
</tr>
<tr>
<td>Over $439,000</td>
<td>$125,362 plus 39.6% of the excess over $439,000</td>
</tr>
</tbody>
</table>

Table 4 - Internal Revenue Bulletin (2015)
If Taxable Income Is: | The Tax Is:  
---|---  
Not over $2,500 | 15% of the taxable income  
Over $2,500 but not over $5,900 | $375 plus 25% of the excess over $2,500  
Over $5,900 but not over $9,050 | $1,225 plus 28% of the excess over $5,900  
Over $9,050 but not over $12,300 | $2,107 plus 33% of the excess over $9,050  
Over $12,300 | $3,179.50 plus 39.6% of the excess over $12,300  

Table 5 - Internal Revenue Bulletin (2015)

**Capital Gains and Qualified Dividends**

<table>
<thead>
<tr>
<th>Tax Bracket</th>
<th>Short-term</th>
<th>Long-term</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%, 15% brackets</td>
<td>Ordinary rate</td>
<td>0%</td>
</tr>
<tr>
<td>25%, 28%, 33%, 35% brackets</td>
<td>Ordinary rate</td>
<td>15%</td>
</tr>
<tr>
<td>39.6% brackets</td>
<td>Ordinary rate</td>
<td>20%</td>
</tr>
</tbody>
</table>

Table 6 - Internal Revenue Bulletin (2015)

An additional 3.8% Net Investment Income Tax (NIIT) applies to individuals on the lesser of net investment income or modified AGI in excess of $200,000 (single) or $250,000 (married/filing jointly and qualifying widow(er)s). The tax also applies to any trust or estate on the lesser of undistributed net income or AGI in excess of the dollar amount at which the estate/trust pays income taxes at the highest rate.

**Standard Mileage Rates**

The 2015 optional standard mileage rates are used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes. Beginning on January 1, 2015, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

- 57.5 cents per mile for business miles driven, up from 56 cents in 2014.
- 23 cents per mile driven for medical care or moving purposes, down half a cent from 2014.
- 14 cents per mile driven in service of charitable organizations, remains the same as 2014.

The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile, including depreciation, insurance, repairs, tires, maintenance, gas and oil. The rate for medical and moving purposes is based on the variable costs, such as gas and oil. The charitable rate is set by law.

Taxpayers always have the option of claiming deductions based on the actual costs of using a vehicle rather than the standard mileage rates.

A taxpayer may not use the business standard mileage rate for a vehicle after claiming accelerated depreciation, including the Section 179 expense deduction, on that vehicle. Likewise, the standard rate is not available to fleet owners (more than four vehicles used simultaneously).

If the taxpayer wants to use the standard mileage rate for a car he or she owns, the taxpayer must choose to use it in the first year the car is available for use in his or her business. Then in later years, the taxpayer can choose to use either the standard mileage rate or actual expenses.

**Standard Deduction**

Taxpayers will see a slight increase in the standard deduction. The standard deduction rises to $6,300 for singles and married persons filing separate returns and $12,600 for married couples filing jointly, up from $6,200 and
$12,400, respectively, for tax year 2014. The standard deduction for heads of household rises to $9,250, up from $9,100. (1)

### Standard Deductions 2015 Tax Year

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Standard Deduction Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$6,300</td>
</tr>
<tr>
<td>Married Filing Jointly</td>
<td>$12,600</td>
</tr>
<tr>
<td>Married Filing Separately</td>
<td>$6,300</td>
</tr>
<tr>
<td>Heads of Household</td>
<td>$9,250</td>
</tr>
<tr>
<td>Surviving Spouse</td>
<td>$12,600</td>
</tr>
</tbody>
</table>

Table 7 - In 2015, Various Tax Benefits Increase Due to Inflation Adjustments (2015)

### Elderly and/or Blind Taxpayers

The standard deduction chart for people age 65 or older (shown below) lists the additional standard deduction for taxpayers who are age 65 or older and/or blind at the end of the tax year. The standard deduction is calculated by adding the person's standard deduction (based on their filing status), plus the additional amount. Additional standard deduction amounts for 2015 are $1,550 for single or head of household or $1,250 for married filing jointly, married filing separately, or qualifying widow.

For example, if the taxpayer is married, filing a joint return and both he and his wife are 68 years of age, what would their standard deduction amount come to for 2015? The taxpayer would check off the box for him as being 65 or older, as well as the same box for his spouse. Two boxes are checked, and looking at the married filing joint return section, we see that their available standard deduction would be $15,100.

If one was also blind, the standard deduction for 2015 would be $16,350 having three boxes checked. Taxpayers claiming blindness must attach a supporting certificate from a medical doctor. Partial blindness qualifies, with a supporting doctor’s statement attesting that the vision in the taxpayer’s best eye is 20/200 or worse after being corrected with glasses or contact lenses or that the taxpayer’s field of vision is not more than 20 degrees.

### Standard Deduction Chart for People Age 65 or Older or Blind

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Number from the box on Line 39a of 1040</th>
<th>Standard Deduction for 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>1</td>
<td>$7,850</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>$9,400</td>
</tr>
<tr>
<td>Married filing jointly or qualifying widow(er)</td>
<td>1</td>
<td>$13,850</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>$15,100</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>$16,350</td>
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<td></td>
<td>4</td>
<td>$17,600</td>
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<tr>
<td>Married filing separately</td>
<td>1</td>
<td>$7,550</td>
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<tr>
<td></td>
<td>2</td>
<td>$8,800</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>$10,050</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>$11,300</td>
</tr>
<tr>
<td>Head of household</td>
<td>1</td>
<td>$10,800</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>$12,350</td>
</tr>
</tbody>
</table>

Caution: Do not use the number of exemptions from Line 6d

Table 8 - Pub 501 Table 7 – Standard Deduction Chart for People Born Before January 2, 1948, or Who are Blind, (2015)
**Itemized Deduction Phase-Out**

Higher income taxpayers are subject to the phase-out of itemized deductions. The adjusted gross income (AGI) thresholds are $258,250 (single filers who are not married and who are not surviving spouses or heads of households), $309,900 (married joint-filing couples or surviving spouse), $284,050 (heads of households), and $156,000 (married filing separately). The phase-out limitation (Pease Limitations) on itemized deductions cuts the amount of deductions a taxpayer can take by 3% of adjusted gross income (AGI) above the specified thresholds but he or she cannot lose more than 80% of the itemized deductions. The following Schedule A (Form 1040) deductions are subject to the overall limit on itemized deductions: (3)

- Taxes paid.
- Interest paid.
- Gifts to charity.
- Job expenses and certain miscellaneous deductions.
- Other miscellaneous deductions.

The following Schedule A (Form 1040) deductions are not subject to the overall limit on itemized deductions. However, they are still subject to other applicable limits: (3)

- Medical and dental expenses.
- Investment interest expense.
- Casualty and theft losses of personal use property.
- Casualty and theft losses of income-producing property.
- Gambling losses.

**Personal Exemption**

The personal exemption for tax year 2015 rises to $4,000, up from the 2014 exemption of $3,950. However, the exemption is subject to a phase-out. For single taxpayers, the personal exemption begins to phase out at $258,250 and fully phases out at $380,750. For married taxpayers filing jointly, the personal exemption begins to phase out at $309,900 and fully phases out at $432,400. For taxpayers filing as head of household, the personal exemption begins to be phased out at $284,050 and fully phases out at $406,550. For married taxpayers filing separately, the personal exemption begins to be phased out at $154,950 and fully phases out at $216,200. (1)

**Alternative Minimum Tax (AMT) Exemption Amount**

Following the passage of the American Tax Relief Act (ATRA), the AMT patch legislation that Congress had to pass every year to ensure more taxpayers were not caught off-guard by the Alternative Minimum tax, is no longer required. Instead the AMT exemption and associated thresholds based on filing status are now tied (or indexed) to inflation (CPI) and updated by the IRS every year. (4)

A specified amount of AMTI, Alternative Minimum Taxable Income, is exempt from alternative minimum taxation. The amount varies according to the taxpayer’s filing status and the tax year at hand. The exemption is subtracted from the taxpayer’s AMTI to determine the amount of his or her AMTI that is subject to tax at the AMT rates.

Additionally, the taxpayer’s exemption phases out if his or her AMTI exceeds the thresholds indicated below. More specifically, the exemption is reduced by 25% of the amount by which his or her AMTI exceeds the applicable threshold for his or her filing status.

<table>
<thead>
<tr>
<th>2015 Filing Status</th>
<th>AMT Exemption Amount</th>
<th>Excess Taxable Income (AMTI)</th>
<th>AMT Phase-out Income Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Returns or Surviving Spouses</td>
<td>$83,400</td>
<td>$185,400</td>
<td>$158,900</td>
</tr>
<tr>
<td>Singles</td>
<td>$53,600</td>
<td>$185,400</td>
<td>$119,200</td>
</tr>
<tr>
<td>Married Individuals Filing Separate Returns</td>
<td>$41,700</td>
<td>$92,700</td>
<td>$79,450</td>
</tr>
<tr>
<td>Estates and Trusts</td>
<td>$23,800</td>
<td>$185,400</td>
<td>$79,450</td>
</tr>
</tbody>
</table>

Table 9 - Instructions for Form 6251 (2015)
Children have a limited exemption amount regarding the alternative minimum tax. In 2015, the exemption amount is the lesser of $53,600 or the sum of the child's earned income plus $7,400. The instructions for Form 6251 - Alternative Minimum Tax - Individuals, include a worksheet for calculating the child’s exemption amount.

Health Flexible Spending Arrangements (FSA)

A Flexible Spending Account (also known as a flexible spending arrangement) is a special account the taxpayer puts money into that he or she uses to pay for certain out-of-pocket health care costs. The taxpayer does have to pay taxes on this money. This means he or she will save an amount equal to the taxes he or she would have paid on the money he or she sets aside. The taxpayer can use funds in his or her FSA to pay for certain medical and dental expenses, including copayments and deductibles.

FSAs are available only with job-based health plans. Employers may make contributions to a taxpayer’s FSA. However, a taxpayer cannot spend FSA funds on insurance premiums.

The annual dollar limit on contributions to employer-sponsored health care FSAs rises to $2,550 in 2015, up from $2,500 in 2014. Both employer and employee may contribute to an employee's health FSA, but contributions from all sources combined must not exceed the $2,550 annual limit for 2015. The statutory $2,550 limit under IRC Section 125(i) applies only to salary reduction contributions under a health FSA, and does not apply to certain employer non-elective contributions (sometimes called flex credits), to any types of contributions or amounts available for reimbursement under other types of FSAs, health savings accounts, or health reimbursement arrangements, or to salary reduction contributions to cafeteria plans that are used to pay an employee’s share of health coverage premiums (or the corresponding employee share under a self-insured employer-sponsored health plan).

The U.S. Treasury Department and the IRS altered the long-standing "use it or lose it" rule, allowing employers to offer a carryover of up to $500 in unused health FSA funds to the following year or to continue a grace period option giving employees a two-and-a-half month extension to spend remaining FSA funds. FSAs cannot have both a carryover and a grace period option, and employers are not obligated to offer either extension.

The annual limit for dependent care FSAs or dependent care assistance plans (DCAPs) will remain at $5,000 for qualifying individuals and those who are married and file a joint return, and will remain at $2,500 for those who are married and file separate returns.

Health Savings Account (HSA)

2015 offers individuals and families additional opportunities to save for current and future health care with a Health Savings Account (HSA):

- HSA holders can choose to save up to $3,350 for an individual and $6,650 for a family (HSA holders 55 and older get to save an extra $1,000 which means $4,350 for an individual and $7,650 for a family) - and these contributions are 100% tax deductible from gross income.
- Minimum annual deductibles are $1,300 for self-only coverage or $2,600 for family coverage.
- Annual out-of-pocket expenses (deductibles, copayments, and other amounts, but not premiums) cannot exceed $6,450 for self-only coverage and $12,900 for family coverage.

<table>
<thead>
<tr>
<th>2015 HSA Contribution Limits, Deductibles, and Out-of-Pocket Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Deductible</td>
</tr>
<tr>
<td>Single            $1,300               $6,450             $3,350         $4,350</td>
</tr>
<tr>
<td>Family            $2,600               $12,900            $6,650         $7,650</td>
</tr>
</tbody>
</table>

Table 10 - HSA Contribution Limits, Deductibles, and Out-of-Pocket Expenses (2015)
Health Care Coverage

When the taxpayer files his or her 2015 tax return in 2016, he or she will need to either:

- Indicate on the return that he or she and his or her family had health care coverage throughout 2015.
- Claim an exemption from the health care coverage requirement for some or all of 2015.
- Make a payment if he or she does not have coverage or an exemption(s) for all 12 months of 2015.

Pension Plan Limitations

The Internal Revenue Service has set the cost-of-living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2015. Many of the pension plan limitations will change for 2015 because the increase in the cost-of-living index met the statutory thresholds that trigger their adjustment. However, other limitations will remain unchanged because the increase in the index did not meet the statutory thresholds that trigger their adjustment. (5)

Elective Deferral

The elective deferral (contribution) limit for employees who partake in 401(k), 403(b), most 457 plans, and the Federal government’s Thrift Savings Plan is increased from $17,500 to $18,000. (5)

Catch-up Contribution Limit

The catch-up contribution limit for employees aged 50 and over participating in 401(k), 403(b), most 457 plans, and the Federal government’s Thrift Savings Plan is increased from $5,500 to $6,000. (5)

Individual Retirement Arrangements (IRA)

The contribution limit to a taxpayer’s traditional IRA for 2015 is the smaller of the following amounts: (6)

- $5,500.
- The taxpayer’s taxable compensation for the year.

If the taxpayer was age 50 or older before 2016, the maximum amount that can be contributed to his or her traditional IRA for 2015 will be the smaller of the following amounts:

- $6,500.
- The taxpayer’s taxable compensation for the year.

For 2015, if the taxpayer is covered by a retirement plan at work, his or her deduction for contributions to a traditional IRA is reduced (phased out) if modified AGI is: (6)

- More than $98,000 but less than $118,000 for a married couple filing a joint return or a qualifying widow(er),
- More than $61,000 but less than $71,000 for a single individual or head of household, or
- Less than $10,000 for a married individual filing a separate return.

If the taxpayer either lives with his or her spouse or files a joint return, and his or her spouse is covered by a retirement plan at work, but the taxpayer is not, the taxpayer’s deduction is phased out if his or her modified AGI is more than $183,000 but less than $193,000. If the taxpayer’s modified AGI is $193,000 or more, he or she cannot take a deduction for contributions to a traditional IRA.

The IRA contribution limit does not apply to:

- Rollover contributions.
- Qualified reservist repayments.

Rollovers

Most pre-retirement payments a taxpayer receives from a retirement plan or IRA can be “rolled over” by depositing
the payment in another retirement plan or IRA within 60 days. He or she can also have his or her financial institution or plan directly transfer the payment to another plan or IRA. All of the following are methods to complete a rollover:

1. **Direct rollover** - If the taxpayer is getting a distribution from a retirement plan, he or she can ask the plan administrator to make the payment directly to another retirement plan or to an IRA. The taxpayer should contact the plan administrator for instructions. The administrator may issue the taxpayer’s distribution in the form of a check made payable to his or her new account. No taxes will be withheld from the transfer amount.

2. **Trustee-to-trustee transfer** - If the taxpayer is getting a distribution from an IRA, he or she can ask the financial institution holding the IRA to make the payment directly from his or her IRA to another IRA or to a retirement plan. No taxes will be withheld from the transfer amount.

3. **60-day rollover** - If a distribution from an IRA or a retirement plan is paid directly to the taxpayer, he or she can deposit all or a portion of it in an IRA or a retirement plan within 60 days. Taxes will be withheld from the distribution, so the taxpayer will have to use other funds to roll over the full amount of the distribution.

The taxpayer generally cannot make more than one rollover from the same IRA within a 1-year period. He or she also cannot make a rollover during this 1-year period from the IRA to which the distribution was rolled over.

If the taxpayer has not elected a direct rollover, in the case of a distribution from a retirement plan, or he or she has not elected out of withholding in the case of a distribution from an IRA, his or her plan administrator or IRA trustee will withhold taxes from the taxpayer’s distribution. If the taxpayer later rolls the distribution over within 60 days, he or she must use other funds to make up for the amount withheld.

**IRA One-Rollover-Per-Year Rule**

As of January 1, 2015, a taxpayer can make only one rollover from a traditional IRA to another (or the same) traditional IRA in any 12-month period, regardless of the number of IRAs he or she owns. A similar limitation will apply to rollovers between Roth IRAs. The taxpayer can, however, continue to make as many trustee-to-trustee transfers between IRAs as he or she wants. Amounts transferred between traditional IRAs, either by rollover or trustee-to-trustee transfer, are excluded from the taxpayer’s gross income.

The one-per year limit does not apply to:

- Rollovers from traditional IRAs to Roth IRAs (conversions).
- Trustee-to-trustee transfers to another IRA.
- IRA-to-plan rollovers.
- Plan-to-IRA rollovers.
- Plan-to-plan rollovers.

Once this rule takes effect, the tax consequences are:

1. The taxpayer must include in gross income any previously untaxed amounts distributed from an IRA if he or she made an IRA-to-IRA rollover (other than a rollover from a traditional IRA to a Roth IRA) in the preceding 12 months.
2. The taxpayer may be subject to the 10% early withdrawal tax on the amount he or she includes in gross income.

If the taxpayer has not elected a direct rollover, in the case of a distribution from a retirement plan, or he or she has not elected out of withholding in the case of a distribution from an IRA, the plan administrator or IRA trustee will withhold taxes from the distribution. If the taxpayer later rolls the distribution over within 60 days, he or she must use other funds to make up for the amount withheld.

If the taxpayer rolls over the full amount of any eligible rollover distribution he or she receives, the entire distribution would be tax-free and he or she would avoid the 10% additional tax on early distributions.

This change will not affect the taxpayer’s ability to transfer funds from one IRA trustee directly to another, because this type of transfer is not a rollover (Revenue Ruling 78-406, 1978-2 C.B. 157). The one-rollover-per-year rule of Internal Revenue Code Section 408(d)(3)(B) applies only to rollovers.
The IRS intends to follow the Tax Court’s interpretation of Internal Revenue Code Section 408(d)(3)(B). However, to give IRA owners and trustees time to adjust, the IRS delayed implementation until January 1, 2015. Proposed Treasury Regulation Section 1.408-4(b)(4)(ii) will be withdrawn and Publication 590 will be revised to reflect the new interpretation.

**Qualified Reservist Repayments**

If the taxpayer was a member of a reserve component and he or she was ordered or called to active duty after September 11, 2001, he or she may be able to contribute (repay) to an IRA amounts equal to any qualified reservist distributions he or she received. The taxpayer can make these repayment contributions even if they would cause his or her total contributions to the IRA to be more than the general limit on contributions. To be eligible to make these repayment contributions, the taxpayer must have received a qualified reservist distribution from an IRA or from a Section 401(k) or 403(b) plan or a similar arrangement.

The qualified reservist repayments cannot be more than the qualified reservist distributions and the taxpayer cannot make these repayment contributions later than the date that is 2 years after his or her active duty period ends. Also, the taxpayer cannot deduct qualified reservist repayments.

If the taxpayer repays a qualified reservist distribution, include the amount of the repayment with nondeductible contributions on line 1 of Form 8606 - Nondeductible IRAs.

**Roth IRA**

If contributions on the taxpayer’s behalf are made only to Roth IRAs, his or her contribution limit for 2015 will generally be the lesser of either: (6)

- $5,500.
- The taxpayer’s taxable compensation for the year.

If the taxpayer was age 50 or older before 2016 and contributions on his or her behalf were completed only to Roth IRAs, the taxpayer’s contribution limit for 2015 will generally be the lesser of either of the following: (6)

- $6,500.
- The taxpayer’s taxable compensation for the year.

For 2015, the taxpayer’s Roth IRA contribution limit is reduced (phased out) in the following situations: (6)

- His or her filing status is married filing jointly or qualifying widow(er) and his or her modified AGI is at least $183,000. The taxpayer cannot make a Roth IRA contribution if his or her modified AGI is $193,000 or more.
- His or her filing status is single, head of household, or married filing separately and he or she did not live with his or her spouse at any time in 2015 and his or her modified AGI is at least $116,000. The taxpayer cannot make a Roth IRA contribution if his or her modified AGI is $131,000 or more.
- His or her filing status is married filing separately, he or she lived with his or her spouse at any time during the year, and his or her modified AGI is more than $0. The taxpayer cannot make a Roth IRA contribution if his or her modified AGI is $10,000 or more.

Regardless of the taxpayer’s age, he or she may be able to establish and make nondeductible contributions to a Roth IRA. The taxpayer does not report Roth IRA contributions on his or her return.

**Contribution Limits**

The Internal Revenue Service announced cost-of-living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2015. Some pension limitations such as those governing 401(k) plans and IRAs will remain unchanged because the increase in the Consumer Price Index did not meet the statutory thresholds for their adjustment. However, other pension plan limitations increased for 2015.

<table>
<thead>
<tr>
<th>Contribution Limits</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRA contributions under age 50</td>
<td>$5,500</td>
<td>$5,500</td>
<td>$5,500</td>
</tr>
</tbody>
</table>
Designated Roth Accounts - In-Plan Rollovers to Designated Roth Accounts

A plan with a designated Roth program may allow participants to transfer eligible rollover distributions to a designated Roth account from another account in the same plan. The Roth contribution program must be in place before a plan can offer in-plan Roth rollovers. A Roth program cannot be set up solely to accept in-plan rollovers - it must also accept elective deferrals from participants. Not all pre-tax plan balances can be transferred to a designated Roth account. To be eligible for an in-plan rollover, the amount must be eligible for distribution to the participant under the terms of the plan and must be otherwise eligible for rollover (an eligible rollover distribution).

20% mandatory withholding does not apply to an in-plan Roth direct rollover. However, if the taxpayer receives his or her distribution in cash, 20% withholding will apply even if the amount is rolled over to a designated Roth account within 60 days. (8)

Inherited IRAs Not Excludable In Bankruptcy

In Clark v. Rameker, the U.S. Supreme Court unanimously ruled that inherited IRAs do not qualify under the “retirement funds” bankruptcy exemption. As a result, non-spouses inheriting an IRA may no longer protect the funds from creditors after filing bankruptcy and spouses have more incentive to roll over inherited IRA funds.

The new decision does not leave those wishing to transfer IRAs on their death without options. Spouses inheriting IRAs retain the option to roll over the inherited IRA into their own or a new IRA. If a current IRA owner wishes to leave his or her IRA to a beneficiary upon the owner’s death, the best course of action is to leave the IRA to a trust for the benefit of the individual instead of directly to an individual.

The My Retirement Account (myRA)

The U.S. Department of the Treasury has developed the myRA (“My Retirement Account”) program, offering a retirement savings account for individuals looking for a simple, safe and affordable way to start saving. As of 2014, individuals were able to open accounts and begin contributing to them every payday. The myRAs will be initially offered through employers, balances will never go down, and there will be no fees. The myRAs will hold a new retirement savings bond that will be backed by the U.S. Treasury.

Key features of the myRA include: (9)

- No cost to open an account.
- Contribute to savings through regular payroll direct deposit.
- Individual decides how much to contribute every payday ($50, $25, $7 – any amount!)
- No fees.
- myRAs will earn interest at the same variable rate as the Government Securities Investment Fund in the Thrift Savings Plan for federal employees.
- myRAs will not be limited to one employer – the account will be portable.
- myRA contributions can be withdrawn tax free.
- Earnings can be withdrawn tax free after five years and the saver is 59½.
- Account holders can build savings for 30 years or until their myRA reaches $15,000 – whichever comes first. After that, myRA balances will transfer to private-sector Roth IRAs.

The myRA will be Roth IRA accounts with Roth IRA annual income eligibility limit. This means that people who have an annual income of less than $129,000 for individuals and $191,000 for couples can participate. These limits are
subject to annual cost-of-living adjustments. Each individual, not the employer, will be responsible for complying with these income limits.

Because the myRA is a Roth account, contributions can be withdrawn tax-free at any time, and earnings can be distributed without triggering an additional tax once the account is five years old and the account owner is at least age 59½. However, myRAs differ from Roth IRAs in that myRAs will hold a new retirement savings bond backed by the U.S. Treasury that is guaranteed not to lose value, and there are no fees. Savers can use the accounts for up to 30 years or until their balance grows to $15,000, at which point the balance will transfer to a private-sector retirement account.

**Affordable Care Act Tax Provisions for Individuals**

In March 2010, President Obama signed comprehensive health reform, the Patient Protection and Affordable Care Act (ACA), into law. The law contains tax provisions that are currently in effect and more that will be implemented during the next few years. When the taxpayer files his or her 2015 tax return in 2016, he or she will need to either:

- Indicate on his or her 2015 Federal income tax return that he or she, his or her spouse (if filing jointly), and his or her dependents had health care coverage throughout 2015.
- Claim an exemption from the health care coverage requirement for some or all of 2015 and attach Form 8965 to his or her return.
- Make a shared responsibility payment if, for any month in 2015, the taxpayer, his or her spouse (if filing jointly), or his or her dependents did not have coverage and do not qualify for a coverage exemption.

The taxpayer may be eligible to claim the Premium Tax Credit if he or she, his or her spouse (if filing jointly), and his or her dependents enrolled in health insurance through the Health Insurance Marketplace. Advance payments of the Premium Tax Credit may have been made to a health insurer to help pay for the insurance coverage of the taxpayer, his or her spouse (if filing jointly), or his or her dependents. If advance payments of the Premium Tax Credit were made, the taxpayer must file a 2015 return and Form 8962 - Premium Tax Credit (PTC).

If the taxpayer, his or her spouse (if filing jointly), or his or her dependents enrolled in health insurance through the Health Insurance Marketplace, the taxpayer should have received Form 1095-A - Health Insurance Marketplace Statement. If the taxpayer receives Form(s) 1095-A, he or she should save it. Form(s) 1095-A will help the taxpayer figure his or her Premium Tax Credit. If the taxpayer did not receive a Form 1095-A, he or she should contact the Marketplace.

**Premium Tax Credit**

As of 2014, individuals and families can take a new Premium Tax Credit to help them afford health insurance coverage purchased through an Affordable Insurance Exchange. Exchanges will operate in every state and the District of Columbia. This tax credit can help make the cost of purchasing health insurance coverage more affordable for individuals and families with low to moderate incomes. Additionally, the premium tax credit is refundable so taxpayers who have little or no income tax liability can still benefit. The credit also can be paid in advance to a taxpayer’s insurance company to help cover the cost of premiums.

In general, the taxpayer may be eligible for the credit if he or she meets all of the following: (10)

1. Purchases coverage through the Marketplace.
2. Has household income that falls within a certain range.
3. Is not able to get affordable coverage through an eligible employer plan that provides minimum value.
4. Is not eligible for coverage through a government program, like Medicaid, Medicare, CHIP or TRICARE.
5. Files a joint return, if married.
6. Cannot be claimed as a dependent by another person.

In general, individuals and families whose household income for the year is between 100% and 400% of the Federal poverty line for their family size may be eligible for the premium tax credit. An individual who meets these income requirements must also meet the other eligibility criteria.
For 2015, for residents of one of the 48 contiguous states or Washington, D.C., the following illustrates some examples of when household income would be between 100% and 400% of the Federal poverty line:

- $11,770 (100%) up to $47,080 (400%) for one individual.
- $15,930 (100%) up to $63,720 (400%) for a family of two.
- $20,090 (100%) up to $80,360 (400%) for a family of three.
- $24,250 (100%) up to $97,000 (400%) for a family of four.

If the taxpayer is eligible for the credit, he or she can choose to either:

- **Claim It Now** - have all or some of the credit paid in advance directly to his or her insurance company to lower what he or she pays out-of-pocket for his or her monthly premiums during 2015.
- **Claim It Later** - wait to get all of the credit when he or she files his or her 2015 tax return in 2016.

Whether the taxpayer chooses to claim the Premium Tax Credit now at the Marketplace or claim it later, he or she must file a Federal income tax return.

To claim the credit, the taxpayer must get insurance through the Marketplace. During enrollment through the Marketplace, using information the taxpayer provides about his or her projected income and family composition for 2015, the Marketplace will estimate the amount of the Premium Tax Credit he or she will be able to claim for the 2015 tax year that he or she will file in 2016. The taxpayer will then decide whether he or she wants to have all, some or none of the estimated credit paid in advance directly to his or her insurance company.

The taxpayer should report income and family size changes to the Marketplace throughout the year. Reporting changes, increases or decreases, will help the taxpayer get the proper type and amount of financial assistance and will help him or her avoid getting too much or too little in advance.

For example, if the taxpayer does not report income or family size changes to the Marketplace when they happen in 2015, the advance payments may not match his or her actual qualified credit amount on his or her Federal tax return that he or she will file in 2016. This might result in a smaller refund or balance due.

If the taxpayer chooses to claim the Premium Tax Credit now, when he or she files his or her 2015 tax return in 2016, he or she will subtract the total advance payments he or she received during the year from the amount of the Premium Tax Credit calculated on his or her tax return. If the Premium Tax Credit computed on the return is more than the advance credit paid on the taxpayer's behalf during the year, the difference will increase his or her refund or lower the amount of tax he or she owes. If the advance credit payments are more than the Premium Tax Credit, the difference will increase the amount the taxpayer owes and result in either a smaller refund or a balance due.

If the taxpayer chooses to claim the Premium Tax Credit later, he or she will claim the full amount of the Premium Tax Credit when he or she files his or her 2015 tax return in 2016. This will either increase his or her refund or lower his or her balance due. If the taxpayer's state runs its own Marketplace, he or she will use the state's website, not the Marketplace.

**Minimum Value Standards**

As of 2014, minimum value standards will be used to determine whether employees eligible for employer-sponsored health care coverage can obtain subsidized coverage on an exchange. If the employee is qualified for an employer's plan but the plan does not provide minimum value of at least 60%, then depending on the employee's household income, he or she may be eligible for subsidized health care coverage on an exchange.

To meet the minimum value standards the plan must pay at least 60% of the covered benefits and services. Participant cost-sharing must be limited to no more than 40%.

Employees who are not provided access to a plan that meets this minimum value threshold and who have a household income of less than 400% of the Federal poverty level are eligible for premium subsidies, which are delivered in the form of tax credits for coverage through the Health Insurance Exchanges. (Under a separate provision, employees in this income level may also be eligible for premium subsidies if the employer's plan is not affordable according to government standards.)
The IRS has proposed three ways for employers to calculate whether their group health plans meet the standard for minimum value in 2015:

1. **AV and MV Calculators** - Calculators made available by the Department of Health and Human Services (HHS) and the Department of the Treasury. To use the calculator, employers input information about their plan benefits and the percent of cost sharing with employees. The calculator uses claims data from self-funded and large group fully-insured plans to determine whether an employer’s plan provides the minimum value. The calculator alone cannot be used for plans that include what the IRS calls non-standard features, such as limits on physician visits. These can complicate the calculation of the actuarial value.

2. **Actuarial Certification** - Employers sponsoring plans with non-standard features can use a combination of the calculator and an actuarial certification. The employer would use the calculator as explained above, and then have an actuary assess the impact of the non-standard features and adjust the plan’s actuarial value accordingly.

3. **Safe Harbor Checklist** - Instead of using the calculation or actuarial certification, employers can choose alternately to use a safe harbor checklist. This lists the four core benefits and the minimum cost-sharing levels the employer can use to reach a 60% actuarial value. If the cost-sharing level for any of these core benefits exceeds the allowable amount on the safe harbor checklist, the employer’s plan would not reach the required minimum value. Employers cannot choose this option if their plans include non-standard features or do not cover all of the core benefits.

Under proposed guidance as of May 3, 2013, employer-sponsored plans meeting one of the following alternative safe harbor designs are deemed to provide minimum value to employees.

<table>
<thead>
<tr>
<th></th>
<th>Deductible (Single Coverage)</th>
<th>Cost-Sharing</th>
<th>Out-of-Pocket Limit (Single Coverage)</th>
<th>Employer HSA Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan 1</td>
<td>$3,500 integrated medical/drugs</td>
<td>80%</td>
<td>$6,000</td>
<td>None required</td>
</tr>
<tr>
<td>Plan 2</td>
<td>$4,500 integrated medical/drugs</td>
<td>70%</td>
<td>$6,400**</td>
<td>$500</td>
</tr>
<tr>
<td>Plan 3</td>
<td>$3,500 medical/$0 drugs</td>
<td>60% medical/ 75% drugs with $10/$20/$50 copays for first three tiers and 75% coinsurance for specialty drugs</td>
<td>$6,400</td>
<td>None required</td>
</tr>
</tbody>
</table>

** Note that for 2015, the out-of-pocket maximum limit for HSA-eligible plans is $6,450 for an individual. Deductibles for HSA-eligible plans must be at least $1,300 for individual coverage and $2,600 for family coverage.

Table 12 - Internal Revenue Bulletin: Minimum Value of an Employer-Sponsored Health Plan (2015)

An employer-sponsored plan provides minimum value if the plan covers at least 60% of the expected total allowed costs for covered services. The taxpayer’s employer will give him or her a document called a Summary of Benefits and Coverage. That document will provide the taxpayer with information about the benefits and coverage under the taxpayer’s employer-sponsored plan, including whether the plan provides minimum value. Also, under the Fair Labor Standards Act, most employers will make available to employees a notice about their options in the Marketplace and their potential eligibility for a premium tax credit. This one-time notice will include information about whether the employer has a plan that provides minimum value.

**Individual Shared Responsibility Provision**

Under the Affordable Care Act, the Federal government, state governments, insurers, employers and individuals are given shared responsibility to reform and improve the availability, quality and affordability of health insurance coverage in the United States. The individual shared responsibility provision calls for each individual to have minimum essential health coverage (known as minimum essential coverage) for each month, qualify for an exemption, or make a payment when filing his or her Federal income tax return.

Most individuals in the United States have health coverage today that will count as minimum essential coverage and will not need to do anything more than continue the coverage that they have. For those who do not have coverage,
who anticipate discontinuing the coverage they have currently, or who want to explore whether more affordable options are available, the Health Insurance Marketplace opened for every state and the District of Columbia in October of 2013.

The Health Insurance Marketplace helps qualified individuals find minimum essential coverage that fits their budget and potentially financial assistance to help with the costs of coverage. The Health Insurance Marketplace also assesses whether applicants are eligible for Medicaid or the Children’s Health Insurance Program (CHIP). For those who will become eligible for Medicare during 2014, enrolling for Medicare will also ensure that the taxpayer has minimum essential coverage for 2015.

The taxpayer and his or her family are required to have health care coverage, have an exemption from coverage, or make a payment when he or she files the 2015 tax return in 2016. Most people already have qualifying health care coverage and will not need to do anything more than maintain that coverage throughout 2015.

The taxpayer may be exempt from the requirement to maintain qualifying health insurance coverage, called minimum essential coverage, and may not have to make a shared responsibility payment when he or she files his or her next Federal income tax return. The taxpayer may be exempt if he or she:

- Has no affordable coverage options because the minimum amount he or she must pay for the annual premiums is more than 8% of his or her household income.
- Has a gap in coverage for less than three consecutive months.
- Qualifies for an exemption for one of several other reasons, including having a hardship that prevents him or her from obtaining coverage or belonging to a group explicitly exempt from the requirement.

Change in Circumstances

If the taxpayer is receiving advance payments of the premium tax credit to help pay for his or her insurance coverage, he or she must report changes such as income or family size to his or her marketplace. Reporting changes will help to make sure the taxpayer is receiving the proper amount of assistance.

Fees

Most people are required to have health coverage. If they do not have coverage, they may be required to pay a fee. The fee is sometimes called the individual shared responsibility provision or penalty. The penalty in 2015 is calculated one of 2 ways.

An individual will pay whichever of these amounts is higher:

1. 2% of his or her yearly household income (Only the amount of income above the tax filing threshold, about $10,300 for an individual, is used to calculate the penalty). The maximum penalty is the national average yearly premium for a bronze plan.
2. $325 per person for the year ($162.50 per child under 18). The maximum penalty per family using this method is $975.

The fee increases every year. In 2016 and later years it’s 2.5% of income or $695 per person ($347.50 per child under 18). After that it is adjusted for inflation. If an individual is uninsured for just part of the year, 1/12 of the yearly penalty applies to each month he or she uninsured. If the individual is uninsured for less than 3 months, he or she does not have a make a payment. The taxpayer will pay the fee on his or her 2015 Federal income tax return. Most people will file this return in 2016.

The following types of health plans that do not meet minimum essential coverage do not qualify as coverage in 2015. If the individual only has these types of coverage, he or she may have to pay the fee. Examples include:

- Coverage only for vision care or dental care.
- Workers' compensation.
- Coverage only for a specific disease or condition.
- Plans that offer only discounts on medical services.
Health Coverage Exemptions

Taxpayers must have health care coverage, have a health coverage exemption, or make a shared responsibility payment with their tax return. Taxpayers use Form 8965 - Health Coverage Exemptions to report a coverage exemption granted by the Marketplace (also called the “Exchange”) or to claim a coverage exemption on his or her tax return. In addition, if for any month the taxpayer or another member of his or her tax household had neither health care coverage nor a coverage exemption, the instructions for Form 8965 provide the information the taxpayer will need to calculate his or her shared responsibility payment. Some exemptions must be obtained through the Marketplace (an individual must have applied and received their exemption certificate number before they file their return). Certain exemptions can only be requested at the time the Federal return is filed, while others can be requested through the Marketplace or when filing their Federal return. Exemptions that can only be obtained from the Marketplace are as follows: (11)

- Members of certain religious sects - the taxpayer is a member of a recognized religious sect.
- Determined ineligible for Medicaid in a state that did not expand Medicaid coverage - the taxpayer was determined ineligible for Medicaid solely because the state in which he or she resided did not participate in Medicaid expansion under the Affordable Care Act.
- General hardship - the taxpayer experienced a hardship that prevented him or her from obtaining coverage under a qualified health plan.
- Coverage considered unaffordable based on projected income - the taxpayer did not have access to coverage that is considered affordable based on his or her projected household income.
- Unable to renew existing coverage - the taxpayer was notified that his or her health insurance policy was not renewable and he or she considered the other plans available unaffordable.
- AmeriCorps coverage - the taxpayer was engaged in service in AmeriCorps State and National, VISTA, or NCCC programs and were covered by short-term duration coverage or self-funded coverage provided by these programs.

Exemptions that can be requested through the Marketplace or on Form 8965 when filing a Federal return: (11)

- Members of a health care sharing ministry - the taxpayer was a member of a health care sharing ministry.
- Members of Indian tribes - the taxpayer was either a member of a Federally-recognized Indian tribe, including an Alaska Native Claims Settlement Act (ANCSA) Corporation Shareholder (regional or village), or he or she was otherwise eligible for services through an Indian health care provider or the Indian Health Service.
- Incarceration - the taxpayer was in a jail, prison, or similar penal institution or correctional facility after the disposition of charges.
- Resident of a state that did not expand Medicaid - the taxpayer’s household income was below 138% of the Federal poverty line for his or her family size and at any time during the tax year he or she resided in a state that did not participate in the Medicaid expansion under the Affordable Care Act.

Examples of some of the exemptions that may only be requested by filing Form 8965 with a Federal return: (11)

- Income below the filing threshold - the taxpayer’s gross income or his or her household income was less than his or her applicable minimum threshold for filing a tax return.
- Coverage considered unaffordable - The minimum amount the taxpayer would have paid for premiums is more than 8% of his or her household income.
- Short coverage gap - the taxpayer went without coverage for less than 3 consecutive months during the year.
- Citizens living abroad and certain noncitizens - the taxpayer was:
  - A U.S. citizen or resident who spent at least 330 full days outside of the U.S. during a 12–month period;
  - A U.S. citizen who was a bona fide resident of a foreign country or U.S. territory;
  - A resident alien who was a citizen of a foreign country with which the U.S. has an income tax treaty with a nondiscrimination clause, and he or she was a bona fide resident of a foreign country for the tax year; or
  - Not a U.S. citizen, not a U.S. national, and not an individual lawfully present in the U.S.
- Aggregate self-only coverage considered unaffordable - Two or more family members’ aggregate cost of self-only employer-sponsored coverage was more than 8% of household income, as was the cost of any available employer-sponsored coverage for the entire family.
Gap in coverage at the beginning of 2015 - the taxpayer had a coverage gap at the beginning of 2015 but was either enrolled in, or was treated as having enrolled in, coverage through the Marketplace or outside of the Marketplace with an effective date on or before May 1, 2015.

Gap in CHIP coverage - the taxpayer applied for CHIP coverage during the initial open enrollment period and were found eligible for CHIP based on that application but had a coverage gap at the beginning of 2015.

If a taxpayer is eligible for an exemption from having health insurance for 2015, they must complete Form 8965 (Health Coverage Exemptions) to avoid owing a penalty (shared responsibility payment) for 2015.

**Health Coverage Tax Credit (HCTC)**

The Trade Preferences Extension Act of 2015 (Public Law 114-27), enacted June 29, 2015, extended and modified the expired Health Coverage Tax Credit. Previously, those eligible for HCTC could claim the credit against the premiums they paid for certain health insurance coverage through 2013. The HCTC can now be claimed for coverage through 2019.

The law is similar to the version of the credit that expired in 2013 (which covered 72.5% of the premium amount paid by eligible individuals for qualified health insurance coverage) but includes modifications that affect how the credit is administered. The IRS will provide guidance on the credit in the near future, including guidance for taxpayers who also qualify for the Premium Tax Credit under the Affordable Care Act. In the meantime, the IRS offers the following guidance to anyone who may be eligible for the Health Coverage Tax Credit:

- If the taxpayer intends to claim the HCTC for 2014, he or she must first file an original 2014 tax return without claiming the HCTC even if he or she has no other filing requirement or requested an extension to file a 2014 tax return.
- Eligible taxpayers can claim the HCTC for 2014 by filing an amended return when the IRS issues the appropriate guidance.
- A taxpayer does not claim the HCTC using an old or altered Form 8885 when he or she files his or her Form 1040. There is no Form 8885 - Health Coverage Tax Credit, for tax year 2014. The IRS will provide guidance on how to file.
- Until the IRS provides more information, an eligible taxpayer who wants to elect the HCTC should ensure that he or she is enrolled in qualifying health care coverage. Although coverage through the Health Insurance Marketplace qualifies for the HCTC for 2014 and 2015, that coverage is ineligible for the HCTC in 2016.
- If the taxpayer or anyone on his or her return purchased 2014 health insurance coverage from the Health Insurance Marketplace and advance payments were made on his or her behalf, the taxpayer must file a 2014 tax return with Form 8962 - Premium Tax Credit, before he or she can amend his or her return to claim the HCTC.
- Advanced payments (monthly option) for HCTC are planned to begin July 2016. The legislation allows IRS one year to implement the monthly option.
- If the taxpayer can be claimed as a dependent on another person’s Federal income tax return, he or she is not a candidate for the HCTC.

**Large Employer Health Coverage Excise Tax**

Starting in 2015, large employers, generally those with 50 full-time employees in the prior calendar year, that:

- Do not offer coverage for all its full-time employees.
- Offer minimum essential coverage that is unaffordable (employee contribution is more than 9.5% of the employee's household income).
- Offer minimum essential coverage where the plan's share of the total allowed cost of benefits is less than 60%.

Will be required to pay a penalty if any of its full-time employees were certified to the employer as having purchased health insurance through a state exchange and qualified for either tax credits or a cost-sharing subsidy.

Individual reporting requires health insurers and employers sponsoring self-funded group health plans to annually report to the IRS and responsible individuals (i.e., the enrolled employees and other primary insureds) whether the group health plan coverage constitutes minimum essential coverage under Health Care Reform. This reporting
requirement will assist the IRS to enforce the individual mandate penalty. Form 1095-B - Health Coverage is used to complete the individual mandate reporting requirement with respect to responsible individuals and the IRS. Information to be provided includes the responsible individual's name, address and Social Security number. Identifying information concerning the employer-plan sponsor and issuer-coverage provider must be supplied, along with a list of the responsible individual's enrolled family members and the months during the year when they had coverage.

When submitting Form 1095-B to the IRS, the reporting entity must also submit IRS Form 1094-B - Transmittal of Health Coverage Information Returns. Form 1094-B is a "transmittal" form that provides information about the reporting entity and the number of Form 1095-B submitted.

Applicable Large Employers (ALE) with 50 or more full-time and full-time equivalent employees are required to report to the IRS and full-time employees for two purposes:

1. To assist the IRS enforce the Employer Shared Responsibility provisions.
2. To assist full-time employees to determine their eligibility for the Premium Tax Credit.

Applicable Large Employers (ALE) should use IRS Form 1095-C - Employer-Provided Health Insurance Offer and Coverage to complete the reporting requirement with respect to full-time employees and the IRS.

Similar to the individual mandate reporting requirement, when submitting Form 1095-C to the IRS, large employers must also submit Form 1094-C - Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns. Form 1094-C is also a "transmittal" form that provides the IRS with a summary of the information contained in Form 1095-C. If an employer is part of a "controlled group" of commonly-owned entities, information regarding the other employers must be included.

## 2015 Tax Credit and Deductions Updates

### Child Tax Credit

The American Taxpayer Relief Act made the Child Tax Credit permanent. The Child Tax Credit is an important tax credit that may be worth as much as $1,000 per qualifying child depending upon the taxpayer's income.

### Additional Child Tax Credit

A portion of the Child Tax Credit is refundable, if the credit exceeds the amount of taxes the family owes, a percentage of the remaining credit is given back to the family as a refund, and is officially called the Additional Child Tax Credit. A family can receive a refund worth 15% of earnings above $3,000, up to $1,000 per child.

The Protecting Americans from Tax Hikes Act of 2015 permanently set the threshold amount for determining whether a taxpayer is eligible for the Additional Child Tax Credit at $3,000 (not indexed for inflation). The bill also adds a provision barring individuals from claiming the credit for 10 years if they fraudulently claimed the credit and for two years if they are found to have claimed the credit with reckless or intentional disregard of the rules.

### Earned Income Credit

The Protecting Americans from Tax Hikes Act of 2015 made the Earned Income Credit (EIC) permanent. The bill contained provisions that include an increased amount for families with three or more children and an increased phase-out range for married taxpayers filing jointly. The phase-out range is indexed for inflation for years after 2015.

For tax year 2015, the maximum earned income tax credit (EITC) for low and moderate income workers and working families rises to $6,242, up from $6,143 in 2014. The EIC is a refundable tax credit for certain people who work and have earned income under $53,267. The credit varies by family size, filing status and other factors, with the maximum credit going to joint filers with three or more qualifying children.

The maximum amount of income a taxpayer can earn and still get the credit has increased: (12)

- Taxpayer has three or more qualifying children and he or she earned less than $47,747 ($53,267 if married filing jointly).
Taxpayer has two qualifying children and he or she earned less than $44,454 ($49,974 if married filing jointly).
- Taxpayer has one qualifying child and he or she earned less than $39,131 ($44,651 if married filing jointly).
- Taxpayer does not have a qualifying child and he or she earned less than $14,820 ($20,330 if married filing jointly).

For tax year 2015 the maximum Earned Income Credit is: (12)

- $6,242 with three or more qualifying children.
- $5,548 with two qualifying children.
- $3,359 with one qualifying child.
- $503 with no qualifying children.

Additionally, the maximum amount of investment income a taxpayer can have and still get the credit has increased to $3,400. Use Publication 596 - Earned Income Credit (EIC) to determine eligibility.

Paid preparers must complete Form 8867 - Paid Preparer's Earned Income Credit Checklist when filing Federal income tax returns or claims for refund involving the EIC. Paid preparers must meet due diligence requirements in determining the taxpayer's eligibility for, and the amount of, the EIC. Failure to do so could result in a $500 penalty for each failure.

Adoption Credit

The American Taxpayer Relief Act of 2012 (H.R.8) passed on January 2, 2013 permanently extended the Adoption Credit and the adoption assistance programs for tax years beginning after December 31, 2012. Tax benefits for adoption include both a tax credit for qualified adoption expenses paid to adopt an eligible child and an exclusion for employer-provided adoption assistance. The credit is nonrefundable, which means it is limited to the taxpayer's tax liability for the year. The maximum amount (dollar limit) for 2015 is $13,400 per child.

For both the credit and the exclusion, qualified adoption expenses, defined in section 23(d)(1) of the Code, include: (13)

- Reasonable and necessary adoption fees,
- Court costs and attorney fees,
- Traveling expenses (including amounts spent for meals and lodging while away from home), and
- Other expenses that are directly related to and for the principal purpose of the legal adoption of an eligible child.
- An eligible child is an individual who is under the age of 18, or is physically or mentally incapable of self-care.

An eligible child is an individual who is under the age of 18, or is physically or mentally incapable of self-care.

Qualified adoption expenses do not include: (13)

- Expenses for which the taxpayer received funds under any state, local, or Federal program.
- Expenses that violate state or Federal law.
- Expenses for carrying out a surrogate parenting arrangement.
- Expenses for the adoption of a taxpayer’s spouse's child.
- Expenses paid or reimbursed by a taxpayer’s employer or any other person or organization.
- Expenses allowed as a credit or deduction under any other provision of Federal income tax law.

If the taxpayer is filing Form 8839 - Qualified Adoption Expenses, he or she cannot file the income tax return and Form 8839 electronically. The taxpayer must file a paper return. Mail the return to the address listed in the tax return instructions. (13)

The credit and exclusion are each subject to an income limitation and a dollar limitation. The income limit on the adoption credit or exclusion is based on taxpayer’s modified adjusted gross income (MAGI). For tax year 2015, the MAGI phase-out begins at $201,010 and ends at $241,010. Thus, if the taxpayer’s MAGI amount is below $201,010 for 2015, his or her credit or exclusion will not be affected by the MAGI phase-out but if the taxpayer’s MAGI amount for 2015 is above $241,010, his or her credit or exclusion will be zero.
The taxpayer should reduce the dollar limit for a particular year by the amount of qualified adoption expenses used in the previous years for the same adoption effort. For example, if the taxpayer claimed a $3,000 credit in connection with a domestic adoption in 2014 and paid an additional $13,000 of qualified adoption expenses in 2015 (when the adoption became final), the maximum credit the taxpayer can claim in 2015 is $10,000 ($13,000 dollar limit, less $3,000 of qualified adoption expenses claimed in 2014).

The dollar limitation applies separately to both the credit and the exclusion, and the taxpayer may be able to claim both the credit and the exclusion for qualified expenses. However, he or she must claim any allowable exclusion before claiming any allowable credit. Expenses used for the exclusion reduce the amount of qualified adoption expenses available for the credit. As a result, the taxpayer cannot claim both a credit and an exclusion for the same expenses.

Because the adoption credit is not refundable after 2011, the taxpayer may be able to carry-forward any unused credit amounts to future tax years. The 2015 Form 8839 and its instructions will have information on the credit carry-forward. (13)

**Retirement Savings Contribution Credit (Saver’s Credit)**

A taxpayer can claim the credit for 50%, 20% or 10% of the first $2,000 ($4,000 if married filing jointly) contributed during the year to a retirement account. Therefore, the maximum credit amounts that can be claimed are $1,000, $400 or $200 per person. The maximum credit a married couple filing jointly can claim together is $2,000. The applicable percentage is determined by the taxpayer’s filing status and adjusted gross income (AGI). The credit may be used against the taxpayer’s regular and alternative minimum tax liability.

The maximum applicable percentage is 50%, which is completely phased out when AGI exceeds $61,000 for joint filers, $45,750 for head of household filers, and $30,500 for single and married filing separately filers. (14)

<table>
<thead>
<tr>
<th>Saver’s Credit 2015 Adjusted Gross Income (AGI)</th>
<th>Single Filer</th>
<th>Head of Household</th>
<th>Joint Filers</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>$18,250 or less</td>
<td>$27,375 or less</td>
<td>$36,500 or less</td>
</tr>
<tr>
<td>20%</td>
<td>$18,251 - $19,750</td>
<td>$27,376 - $29,625</td>
<td>$36,501 - $39,500</td>
</tr>
<tr>
<td>10%</td>
<td>$19,751 - $30,500</td>
<td>$29,626 - $45,750</td>
<td>$39,501 - $61,000</td>
</tr>
</tbody>
</table>

Table 13 - Form 8880 - Credit for Qualified Retirement Savings Contributions (2015)

**Tuition and Fees Deduction**

The taxpayer may be able to deduct qualified education expenses paid during the year for him or herself, his or her spouse, or his or her dependent(s). She cannot claim this deduction if his or her filing status is married filing separately or if another person can claim an exemption for him or her as a dependent on his or her tax return. Also, the qualified expenses must be for higher education.

The tuition and fees deduction can reduce the amount of the taxpayer’s income subject to tax by up to $4,000. This deduction is taken as an adjustment to income. This means the taxpayer can claim this deduction even if he or she does not itemize deductions on Schedule A (Form 1040). This deduction may be beneficial to the taxpayer if he or she does not qualify for the American Opportunity or Lifetime Learning Credits.

The Protecting Americans from Tax Hikes Act of 2015 extended the above-the-line deduction for qualified tuition and related expenses through 2016.
**Deduction for Educator Expenses**

If the taxpayer is an eligible educator, he or she can deduct up to $250 ($500 if married filing joint and both spouses are educators, but not more than $250 each) of any unreimbursed expenses (otherwise deductible as a trade or business expense) he or she paid or incurred for books, supplies, computer equipment (including related software and services), other equipment, and supplementary materials that he or she uses in the classroom. For courses in health and physical education, expenses for supplies are qualified expenses only if they are related to athletics. This deduction is for expenses paid or incurred during the tax year.

The taxpayer is an eligible educator if, for the tax year, he or she meets the following requirements: (15)

1. He or she is a kindergarten through grade 12:
   a. Teacher
   b. Instructor
   c. Counselor
   d. Principal
   e. Aide
2. He or she works at least 900 hours a school year in a school that provides elementary or secondary education, as determined under state law.

Qualified expenses are deductible only to the extent the amount of such expenses exceed the following amounts for the tax year:

- The interest on qualified U.S. savings bonds that the taxpayer excluded from income because he or she paid qualified higher education expenses.
- Any distribution from a qualified tuition program that the taxpayer excluded from income.
- Any tax-free withdrawals from the taxpayer’s Coverdell Education Savings Account.
- Any reimbursed expenses not reported to the taxpayer on his or her Form W-2, box 1.

The Protecting Americans from Tax Hikes Act of 2015 made the above-the-line deduction for certain expenses of elementary and secondary school teachers permanent.

**Option to Deduct State and Local General Sales Taxes**

The Protecting Americans from Tax Hikes Act of 2015 made the option to deduct State and Local General Sales Taxes permanent.

There are four types of deductible non-business taxes:

1. State, local and foreign income taxes.
2. State, local and foreign real estate taxes.
3. State and local personal property taxes.
4. State and local general sales taxes.

To be deductible, the tax must be imposed on the taxpayer and must have been paid during his or her tax year. Taxes may be claimed only as an itemized deduction on Form 1040, Schedule A - Itemized Deductions.

State and local income taxes withheld from the taxpayer’s wages during the year appear on his or her Form W-2. The taxpayer can elect to deduct state and local general sales taxes instead of state and local income taxes, but he or she cannot deduct both. If the taxpayer elects to deduct state and local general sales taxes, he or she can use either his or her actual expenses or the optional sales tax tables. Refer to the Form 1040, Schedule A Instructions, for more information and for the optional sales tax tables.

**Mortgage Insurance Premiums Deduction**

The Protecting Americans from Tax Hikes Act of 2015 extended the Mortgage Insurance Premiums Deduction through 2016. Generally, home mortgage interest is any interest the taxpayer pays on a loan secured by his or her home (main home or a second home). The loan may be a mortgage to buy his or her home, a second mortgage, a line of credit, or a home equity loan. The taxpayer can deduct home mortgage interest if all the following conditions are met.
1. He or she files Form 1040 and itemize deductions on Schedule A (Form 1040).
2. The mortgage is a secured debt on a qualified home in which the taxpayer has an ownership interest.
3. Both the taxpayer and the lender must intend that the loan be repaid.

The taxpayer can treat amounts he or she paid during 2015 for qualified mortgage insurance such as private mortgage insurance (PMI) as home mortgage interest. The insurance must be in connection with home acquisition debt, and the insurance contract must have been issued after 2006. The mortgage interest statement (Form 1098) the taxpayer receives should show not only the total interest paid during the year, but also his or her mortgage insurance premiums paid during the year, which generally qualify to be treated as deductible mortgage interest.

The Nonbusiness Energy Property Credit

The Protecting Americans from Tax Hikes Act of 2015 extended the Nonbusiness Energy Property Credit through 2016. Taxpayers who made some energy efficient improvements to their home or purchased energy-efficient products last year may qualify for a tax credit.

- The taxpayer may claim a credit of 10% of the cost of certain energy saving property that he or she added to his or her main home. This includes the cost of qualified insulation, windows, doors and roofs.
- In some cases, the taxpayer may be able to claim the actual cost of certain qualified energy-efficient property. Each type of property has a different dollar limit. Examples include the cost of qualified water heaters and qualified heating and air conditioning systems.
- This credit has a maximum lifetime limit of $500. The taxpayer may only use $200 of this limit for windows.
- The taxpayer’s main home must be located in the U.S. to qualify for the credit.
- Not all energy-efficient improvements qualify, so be sure the taxpayer has the manufacturer’s credit certification statement. It is usually available on the manufacturer’s website or with the product’s packaging.
- The credit was to expire at the end of 2015. A recent law retroactively extended it through the end of 2016.

To claim the credit, a taxpayer must attach Form 5695 - Residential Energy Credits to his or her income tax return.

Mortgage Debt Exclusion

The Protecting Americans from Tax Hikes Act of 2015 extended the Mortgage Debt Exclusion through 2016. The provision allows taxpayers to exclude income from the discharge of debt on their principal residence. Debt reduced through mortgage restructuring, as well as mortgage debt forgiven in connection with a foreclosure, qualifies for the relief.

Up to $2 million of forgiven debt is eligible for this exclusion ($1 million if married filing separately). The exclusion does not apply if the discharge is due to services performed for the lender or any other reason not directly related to a decline in the home’s value or the taxpayer’s financial condition.

The provision applies only to forgiven or cancelled debt used to buy, build or substantially improve the taxpayer's principal residence, or to refinance debt incurred for those purposes. In addition, the debt must be secured by the home. This is known as qualified principal residence indebtedness.

Charitable Donations from IRAs

The Protecting Americans from Tax Hikes Act of 2015 made permanent the tax exemption of distributions from individual retirement accounts for charitable purposes. Individuals age 70½ or over can exclude up to $100,000 from gross income for donations paid directly to a qualified charity from their IRA. Key points about qualified charitable contributions (QCDs) include:

- Married individuals filing a joint return could exclude up to $100,000 donated from each spouse’s own IRA ($200,000 total).
- The donation satisfies any IRA required minimum distributions for the year.
- The amount excluded from gross income is not deductible.
- Donations from an inherited IRA are eligible if the beneficiary is at least age 70½.
- Donations from a SEP or SIMPLE IRA are not eligible.
- Donations from a Roth IRA are eligible.

IRA owners reported charitable donations from an IRA on Form 1040.
Work Opportunity Credit

The Protecting Americans from Tax Hikes Act of 2015 extended the Work Opportunity Credit through 2019. The bill also modifies this credit beginning in 2016 to allow it to be claimed by employers that hire qualified long-term unemployed individuals (individuals who have been unemployed for 27 or more weeks).

The Work Opportunity Tax Credit (WOTC) offered employers a tax credit for hiring certain workers – including vets. The credit could be as high as $9,600 per qualified veteran for taxable employers ($6,240 for qualified tax-exempt organizations). For taxable employers, the WOTC may be claimed for hiring targeted group members, including qualified veterans, who begin work before Jan. 1, 2015. After the required certification is secured, taxable employers claim the tax credit as a general business credit against their income tax on Form 3800 - General Business Credit.

Other 2015 Tax Update Information

Social Security and Medicare Tax

The employee tax rate for Social Security in 2015 is 6.2%. The employer tax rate for Social Security remains unchanged at 6.2%. The Social Security wage base limit is $118,500 in 2015. The Medicare tax rate is 1.45% each for the employee and employer, unchanged since 2012. There is no wage base limit for Medicare tax. For 2015, the Self-employment tax rate on net earnings is 15.3% (12.4% Social Security tax plus 2.9% Medicare tax). (16)

Gift and Estate Tax

Estates of decedents who die during 2015 have a basic exclusion amount of $5,430,000, up from a total of $5,340,000 for estates of decedents who died in 2014. The annual exclusion for gifts remains at $14,000 for 2015. For 2015, the exclusion from tax on a gift to a spouse who is not a U.S. citizen is $147,000, up from $145,000 for 2014. (17)

Kiddie Tax

For 2015, the threshold for the kiddie tax or the amount of unearned net income that a child can take home without paying any Federal income tax is $1,050. The same $1,050 amount is used to determine whether a parent may elect to include a child's gross income in the parent's gross income and to calculate the "kiddie tax". For example, in 2015 one of the requirements for the parental election is that a child's gross income must be more than $1,050 but less than 10 times that amount which is $10,500.

<table>
<thead>
<tr>
<th>Tax Bracket</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 to $1,050</td>
<td>0%</td>
</tr>
<tr>
<td>Earned income &gt; $1,050</td>
<td>Child’s tax rate</td>
</tr>
<tr>
<td>Unearned income &gt; $1,050 ≤ $2,100</td>
<td>Child’s tax rate</td>
</tr>
<tr>
<td>Unearned income &gt; $2,100</td>
<td>Generally, the parent’s highest marginal tax rate</td>
</tr>
</tbody>
</table>

Table 14 - Various Tax Benefits Increase Due to Inflation Adjustments (2015)

The taxpayer should figure his or her child's tax on Form 8615 - Tax for Certain Children Who Have Unearned Income, and attach it to the child's tax return when:

1. The child's unearned income was more than $2,100.
2. The child meets one of the following age requirements:
   a. The child was under age 18 at the end of the tax year.
   b. The child was age 18 but less than 19 at the end of the tax year and the child's earned income did not exceed one-half of the child's own support for the year (excluding scholarships if the child was a full-time student).
   c. The child was a full-time student who was at least 19 and under age 24 at the end of the tax year and the child's earned income did not exceed one-half of the child's own support for the year (excluding scholarships).
3. At least one of the child's parents was alive at the end of the tax year.
4. The child is required to file a tax return for the tax year.
5. The child does not file a joint return for the tax year.

Also, children have a limited exemption amount regarding the alternative minimum tax. In 2015, the exemption amount is the lesser of $53,600 or the sum of the child's earned income plus $7,400. The instructions for Form 6251 - Alternative Minimum Tax - Individuals, include a worksheet for calculating the child's exemption amount.

Additionally, a child required to file Form 8615 may be subject to the Net Investment Income Tax (NIIT). NIIT is a 3.8% tax on the lesser of net investment income or the excess of the child's modified adjusted gross income (MAGI) over a threshold amount.

Qualified Long-Term Care Insurance Premiums

The amount of qualified long-term care insurance premiums a taxpayer can include is limited. He or she can include the following as medical expenses on Schedule A (Form 1040) by age (at the close of the tax year) of the taxpayer:

<table>
<thead>
<tr>
<th>Age Group</th>
<th>2015 Eligible Premium Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 40 and under</td>
<td>$380</td>
</tr>
<tr>
<td>Ages 41 through 50</td>
<td>$710</td>
</tr>
<tr>
<td>Ages 51 through 60</td>
<td>$1,430</td>
</tr>
<tr>
<td>Ages 61 through 70</td>
<td>$3,800</td>
</tr>
<tr>
<td>Age 71 and over</td>
<td>$4,750</td>
</tr>
</tbody>
</table>

Note: The limit on premiums is for each person.

Table 15 - Publication 502 - Medical and Dental Expenses (2015)

Income from United States Savings Bonds

For taxable years beginning in 2015, the exclusion under IRC Section 135, regarding income from United States savings bonds for taxpayers who pay qualified higher education expenses, begins to phase out for modified adjusted gross income (MAGI) above $115,750 for joint returns and $77,200 for all other returns. The exclusion phases out completely at MAGI levels of $145,750 for joint returns and $92,200 for other returns.

Interest on Education Loans

For 2015, the $2,500 maximum deduction for interest paid on qualified education loans begins to phase out for taxpayers with modified adjusted gross income in excess of $65,000 ($130,000 for joint returns), and is completely phased out for taxpayers with modified adjusted gross income of $80,000 or more ($160,000 or more for joint returns).

Rates on Long-Term Gains and Dividends

The tax rates on long-term capital gains and dividends will remain the same as last year for most taxpayers. However, the maximum rate for higher-income people increases to 20% (up from 15%). This change only affects single filers with taxable income above $413,200, married joint-filing couples with income above $464,850, heads of households with income above $439,000, and married individuals who file separate returns with income above $232,425.

These higher-income individuals can also face the new 3.8% Net Investment Income Tax, which can result in a maximum 23.8% Federal tax rate on long-term gains and dividends.

Transportation Fringe Benefits

An employer can exclude the value of any de minimis transportation benefit he or she provides to an employee from the employee's wages. A de minimis transportation benefit is any local transportation benefit the employer provides.
to an employee if it has so little value (taking into account how frequently the employer provides transportation to his or her employees) that accounting for it would be unreasonable or administratively impracticable. For example, it applies to occasional transportation fare an employer gives an employee because the employee is working overtime if the benefit is reasonable and is not based on hours worked. This exclusion applies to the following benefits: (18)

- A ride in a commuter highway vehicle between the employee’s home and work place.
- A transit pass.
- Qualified parking.
- Qualified bicycle commuting reimbursement.

The exclusion applies whether the employer provides only one or a combination of these benefits to his or her employees.

An employer can generally exclude the value of transportation benefits that he or she provides to an employee during 2015 from the employee's wages up to the following limits: (18)

- $250 per month for combined commuter highway vehicle transportation and transit passes as the Consolidated Appropriations Act retroactively increased the monthly transit benefit limit for 2015 from $130 per month to $250 per month.
- $250 per month for qualified parking.
- For a calendar year, $20 multiplied by the number of qualified bicycle commuting months during that year for qualified bicycle commuting reimbursement of expenses incurred during the year.

If the value of a benefit for any month is more than its limit, the employer must include in the employee's wages the amount over the limit minus any amount the employee paid for the benefit. The employer cannot exclude the excess from the employee's wages as a de minimis transportation benefit.

Foreign Earned Income Exclusion

If the taxpayer is a U.S. citizen or a resident alien of the United States and he or she lives abroad, the taxpayer is taxed on his or her worldwide income. However, the taxpayer may qualify to exclude from income up to an amount of his or her foreign earnings that is adjusted annually for inflation. The foreign earned income exclusion rises to $100,800 for tax year 2015, up from $99,200, for 2014.

In addition to the foreign earned income exclusion, the taxpayer can also claim an exclusion or a deduction from gross income for his or her housing amount if his or her tax home is in a foreign country and he or she qualifies for the exclusions and deduction under either the bona fide residence test or the physical presence test.

The housing exclusion applies only to amounts considered paid for with employer-provided amounts, which includes any amounts paid to the taxpayer or paid or incurred on his or her behalf by his or her employer that are taxable foreign earned income to the taxpayer for the year (without regard to the foreign earned income exclusion). The housing deduction applies only to amounts paid for with self-employment earnings.

The taxpayer’s housing amount is the total of his or her housing expenses for the year minus the base housing amount. The computation of the base housing amount (line 32 of Form 2555) is tied to the maximum foreign earned income exclusion. The amount is 16% of the maximum exclusion amount (computed on a daily basis), multiplied by the number of days in the taxpayer’s qualifying period that fall within his or her tax year. The base amount for 2015 is $16,128 or $44.19 per day.

To claim the foreign earned income exclusion, the foreign housing exclusion, or the foreign housing deduction, the taxpayer must meet all three of the following requirements.

1. His or her tax home must be in a foreign country.
2. He or she must have foreign earned income.
3. He or she must be either:
   a. A U.S. citizen who is a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year,
   b. A U.S. resident alien who is a citizen or national of a country with which the United States has an income tax treaty in effect and who is a bona fide resident of a foreign country or countries for an uninterrupted period that includes an entire tax year,
c. A U.S. citizen or a U.S. resident alien who is physically present in a foreign country or countries for at least 330 full days during any period of 12 consecutive months.

The taxpayer does not automatically acquire bona fide resident status merely by living in a foreign country or countries for 1 year.

Medical Savings Accounts (MSAs)

To be eligible for an Archer MSA, the taxpayer must be covered under a high deductible health plan (HDHP). For tax years beginning in 2015, the term high deductible health plan means for self-only coverage, a health plan that has an annual deductible that is not less than $2,200 and not more than $3,300, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits do not exceed $4,450.

For family coverage, the term means a health plan that has an annual deductible that is not less than $4,450 and not more than $6,650, and under which the annual out-of-pocket expenses required to be paid (other than for premiums) for covered benefits do not exceed $8,150.

<table>
<thead>
<tr>
<th>Medical Savings Accounts (MSAs)</th>
<th>Self-only coverage</th>
<th>Family coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum annual deductible</td>
<td>$2,200</td>
<td>$4,450</td>
</tr>
<tr>
<td>Maximum annual deductible</td>
<td>$3,300</td>
<td>$6,650</td>
</tr>
<tr>
<td>Maximum annual out-of-pocket expenses</td>
<td>$4,450</td>
<td>$8,150</td>
</tr>
</tbody>
</table>

Table 16 - Publication 969 - Archer MSA Limits (2015)

Home Affordable Modification Program (HAMP)

The Home Affordable Modification Program (HAMP) is designed to help financially struggling homeowners avoid foreclosure by modifying loans to a level that is affordable for borrowers now and sustainable over the long term. The program provides clear and consistent loan modification guidelines that the entire mortgage industry can use. The Home Affordable Modification Program includes incentives for borrowers, servicers and investors.

HAMP is designed specifically to help homeowners impacted by financial hardship. With HAMP, the taxpayer’s loan is modified to make his or her monthly mortgage payment no more than 31% of his or her gross (pre-tax) monthly income. If eligible, the modification permanently changes the original terms of his or her mortgage. The taxpayer may be eligible for HAMP if he or she meets the following criteria: (19)

- He or she has a financial hardship.
- He or she obtained his or her mortgage on or before January 1, 2009.
- He or she owes up to $729,750 on his or her primary residence or a one-to-four unit rental property.
- He or she must not have been convicted within the last 10 years of felony larceny, theft, fraud or forgery, money laundering or tax evasion, in connection with a mortgage or real estate transaction.

The benefits of HAMP include:

- Resolving the taxpayer’s delinquency status with his or her mortgage company immediately.
- Reducing the taxpayer’s monthly mortgage payments to a more affordable amount.
- Changing the original terms of his or her mortgage permanently, giving him or her a new start.
- Less damaging to the taxpayer’s credit score than a foreclosure.
- Ability to stay in his or her home and avoid foreclosure.

HAMP involves one or more of the following:

- Changing the mortgage loan type (e.g., changing an Adjustable Rate Mortgage to a Fixed-Rate Mortgage).
- Extending the term of the mortgage (e.g., from a 30-year term to a 40-year term).
- Reducing the interest rate either temporarily or permanently.
- Adding any past-due amounts, such as interest and escrow, to the unpaid principal balance, which is then re-amortized over a new term.
HAMP provides incentives to borrowers and servicers for successful modifications and timely mortgage payments. Incentives accrue monthly and are awarded yearly. Borrowers who make timely payments on their modified first lien and the modified payment resulted in at least a six percent reduction from the monthly mortgage payment used to determine eligibility will receive a “Pay for Performance” incentive in the form of a principal reduction of up to $1,000 per year for five years. The guidance issued by the IRS provides that investor incentive payments made by the HAMP program administrator to mortgage loan holders are treated as payments on the mortgage loans by the United States government on behalf of the borrowers. These payments are generally not taxable to the borrowers under the general welfare doctrine.

The IRS set forth the rules for taxpayers that make the election to defer recognizing cancellation of indebtedness income (COD Income) under newly-enacted Code Section 108(i). The election under Code Section 108(i) was added by the American Recovery and Reinvestment Tax Act of 2009. The new rules in Code Section 108(i) are effective for certain COD Income realized by taxpayers in connection with the "reacquisition" of the taxpayer's debt after December 31, 2008 and before January 1, 2011. COD Income realized by a taxpayer with respect to an eligible debt instrument is included in the taxpayer's gross income ratably over a five-taxable year, beginning with a taxpayer's fourth or fifth taxable year following the taxable year of the debt cancellation.

Taxpayers making the Code Section 108(i) election will experience a significant deferral of COD Income by avoiding the recognition of COD income in 2009 or 2010 and by taking into account the deferred COD Income beginning with their 2014 taxable year. This election is particularly useful for taxpayers that are not eligible for one of the more common COD Income exclusions, such as the exclusion for COD Income of insolvent taxpayers or the exclusion of COD Income for certain real estate indebtedness where the taxpayer makes an election to reduce their basis in the real property by the amount of the excluded COD Income.

Real Property Tax

Revenue Ruling 80-121, 1980-1 C.B. 43, notes that a characteristic common to many real property taxes is that the tax is measured by the value of the real property. However, there is no statutory or regulatory requirement that a real property tax be an ad valorem tax to be deductible for Federal income tax purposes. Assessments on real property owners, based other than on the assessed value of the property, may be deductible if they are levied for the general public welfare by a proper taxing authority at a like rate on owners of all properties in the taxing authority's jurisdiction, and if the assessments are not for local benefits (unless for maintenance or interest charges). (20)

Tax Calendars

A tax calendar is a 12-month calendar divided into quarters. The calendar gives specific due dates for filing tax forms, paying taxes and taking other actions required by Federal tax law. Publication 509 - Tax Calendars contains a section on how to use the tax calendars, three tax calendars including a General Tax Calendar, an Employer's Tax Calendar and an Excise Tax Calendar and a table showing the semiweekly deposit due dates for payroll taxes for 2015.

Report of Foreign Bank and Financial Accounts (FBAR)

The Financial Crimes Enforcement Network (FinCEN) distributed a rule that amends the Bank Secrecy Act (BSA) implementing regulations regarding the Report of Foreign Bank and Financial Accounts (FBAR). The FBAR form is utilized to report a financial interest in, or signature or other authority over, one or more financial accounts in foreign countries. A report is not mandatory if the aggregate value of the accounts does not exceed $10,000.

Therefore, if a U.S. person who has a financial interest in or signature authority over a foreign financial account, including a bank account, brokerage account, mutual fund, trust, or other type of foreign financial account that exceeds $10,000 at any time during the calendar year, the Bank Secrecy Act may require him or her to report the account yearly to the Internal Revenue Service by filing a Report of Foreign Bank and Financial Accounts (FBAR).

FBARs must be electronically filed by June 30th through the Bank Secrecy Act (BSA) E-Filing System using the electronic FinCEN Form 114 - Report of Foreign Bank and Financial Accounts (FBAR), which supersedes the now-obsolete paper Treasury Department Form 90-22.1. The FBAR must be received by
United States persons are required to file an FBAR if both of the following apply: (21)

1. The United States person had a financial interest in or signature authority over at least one financial account located outside of the United States.
2. The aggregate value of all foreign financial accounts exceeded $10,000 at any time during the calendar year to be reported.

United States person includes U.S. citizens; U.S. residents; entities, including but not limited to, corporations, partnerships, or limited liability companies, created or organized in the United States or under the laws of the United States; and trusts or estates formed under the laws of the United States.

The Federal tax treatment of an entity does not determine whether the entity has an FBAR filing requirement. For example, an entity that is disregarded for purposes of Title 26 of the United States Code must file an FBAR, if otherwise required to do so. Similarly, a trust for which the trust income, deductions, or credits are taken into account by another person for purposes of Title 26 of the United States Code must file an FBAR, if otherwise required to do so.

A financial account contains, but is not limited to, a securities, brokerage, savings, demand, checking, deposit, time deposit, or other account maintained with a financial institution (or other person performing the services of a financial institution). A financial account also is comprised of commodity futures or options account, an insurance policy with a cash value (such as a whole life insurance policy), an annuity policy with a cash value, and shares in a mutual fund or similarly pooled fund (i.e., a fund that is available to the general public with a regular net asset value determination and regular redemptions).

Also, a Federal judge ruled in United States v. Hom that a taxpayer’s accounts with FirePay, PartyPoker, and PokerStars in 2006 and 2007 were foreign financial accounts subject to FBAR reporting. This is the first court opinion addressing whether an offshore online gambling account was considered a foreign financial account. It now seems more prudent than ever before for a taxpayer to report all foreign online gambling accounts on the FBAR. The accounts include, among others, accounts similar in nature to FirePay, PartyPoker, and PokerStars.

FirePay was a U.K.-based online money exchange service, similar to PayPal. The defendant in Hom used a FirePay account to transfer money to and from his online PokerStars and PartyPoker gambling accounts.

A foreign financial account is a financial account located outside of the United States. For example, an account maintained with a branch of a United States bank that is physically located outside of the United States is a foreign financial account. An account maintained with a branch of a foreign bank that is physically located in the United States is not a foreign financial account. Exceptions to the FBAR reporting requirements are located in the FBAR instructions. There are filing exceptions for the following United States persons or foreign financial accounts:

- Certain foreign financial accounts jointly owned by spouses.
- United States persons included in a consolidated FBAR.
- Correspondent/nostro accounts.
- Foreign financial accounts owned by a governmental entity.
- Foreign financial accounts owned by an international financial institution.
- IRA owners and beneficiaries.
- Participants in and beneficiaries of tax-qualified retirement plans.
- Certain individuals with signature authority over but no financial interest in a foreign financial account.
- Trust beneficiaries (but only if a U.S. person reports the account on an FBAR filed on behalf of the trust).
- Foreign financial accounts maintained on a United States military banking facility.

A U.S. person who has a foreign financial account may have a reporting obligation even though the account produces no taxable income. The reporting obligation is met by answering questions on a tax return about foreign accounts (for example, the questions about foreign accounts on Form 1040 Schedule B) and by filing an FBAR.

The FBAR is a calendar year report, which must be filed with the Department of Treasury on or before June 30 of the year following the calendar year reported. Generally, extensions of time to file an FBAR are not allowed. The
FBAR is not filed with a Federal tax return. Any filing extensions of time granted by the IRS to file a tax return does not extend the time to file an FBAR.

A U.S. person obligated to file an FBAR who fails to properly file a complete and correct FBAR may be subject to a civil penalty not to exceed $10,000 per violation for violations that are not due to reasonable cause. Taxpayers with specified foreign financial assets that exceed $50,000 on the last day of the tax year or $75,000 at any time during the tax year (higher threshold amounts apply to married individuals filing jointly and individuals living abroad) must report those assets to the IRS on Form 8938 - Statement of Specified Foreign Financial Assets, which is filed with an income tax return. The new Form 8938 filing requirement is in addition to the FBAR filing requirement.

On January 9, 2012, the IRS reopened the Offshore Voluntary Disclosure Program (OVDP) following ongoing interest from taxpayers and tax practitioners after the closure of the 2009 and 2011 programs. The OVDP allows people with unreported taxable income from offshore financial accounts or other foreign assets another opportunity to resolve their tax and information reporting obligations, including the FBAR. The 2012 OVDP has a higher penalty rate than the previous program but provides clear benefits to encourage taxpayers to disclose foreign accounts now rather than risk detection by the IRS and possible criminal prosecution.

Among other requirements under the terms of the Offshore Voluntary Disclosure Program, taxpayers must:

- Pay 20% accuracy-related penalties on the full amount of his or her offshore-related underpayments of tax for all years.
- Pay failure to file penalties, if applicable.
- Pay failure to pay penalties, if applicable.
- Pay, in lieu of all other penalties that may apply to his or her undisclosed foreign assets and entities, including FBAR and offshore-related information return penalties and tax liabilities for years prior to the voluntary disclosure period, a miscellaneous Title 26 offshore penalty, equal to 27.5% (or in limited cases 12.5% or 5%) of the highest aggregate balance in foreign bank accounts/entities or value of foreign assets during the period covered by the voluntary disclosure.
- Submit full payment of any Title 26 tax liabilities for years included in the offshore disclosure period and all tax, interest, accuracy-related penalties for underpayments related to offshore accounts and entities.

If the offshore penalty is unacceptable to a taxpayer, he or she must specify in writing the decision to withdraw from or opt out of the program. Once made, this election is irrevocable. An opt out is an election made by a taxpayer to have his or her case handled under the standard audit process.

**Direct Deposit Limits**

In an effort to combat fraud and identity theft, new IRS procedures effective January 2015 will limit the number of refunds electronically deposited into a single financial account or pre-paid debit card to three. The fourth and subsequent refunds automatically will convert to a paper refund check and be mailed to the taxpayer. Taxpayers also will receive a notice informing them that the account has exceeded the direct deposit limits and that they will receive a paper refund check in approximately four weeks if there are no other issues with the return.

The vast majority of taxpayers will not be affected by this limitation, and we would encourage taxpayers and tax preparers to continue to use direct deposit. It is the fastest, safest way for taxpayers to receive refunds. The direct deposit limit is intended to prevent criminals from easily obtaining multiple refunds. The limit applies to financial accounts, such as bank savings or checking accounts, and to prepaid, reloadable cards or debit cards.

**Virtual Currency**

In some environments, virtual currency (such as Bitcoin) operates like “real” currency (i.e., the coin and paper money of the United States or of any other country that is designated as legal tender, circulates, and is customarily used and accepted as a medium of exchange in the country of issuance) but it does not have legal tender status in any jurisdiction. For Federal tax purposes, virtual currency is treated as property. General tax principles applicable to property transactions apply to transactions using virtual currency. A taxpayer who receives virtual currency as payment for goods or services must, in computing gross income, include the fair market value of the virtual currency, measured in U.S. dollars, as of the date that the virtual currency was received. This also means that:

- Wages paid to employees using virtual currency are taxable to the employee, must be reported by an employer on a Form W-2, and are subject to Federal income tax withholding and payroll taxes.
Continuing Professional Education Course Supplement

- Payments using virtual currency made to independent contractors and other service providers are taxable and self-employment tax rules generally apply. Normally, payers must issue Form 1099.
- The character of gain or loss from the sale or exchange of virtual currency depends on whether the virtual currency is a capital asset in the hands of the taxpayer.
- A payment made using virtual currency is subject to information reporting to the same extent as any other payment made in property.

If the fair market value of property received in exchange for virtual currency exceeds the taxpayer’s adjusted basis of the virtual currency, the taxpayer has taxable gain. The taxpayer has a loss if the fair market value of the property received is less than the adjusted basis of the virtual currency.

### Section 179 Deduction

Essentially, Section 179 of the IRS tax code allows businesses to deduct the full purchase price of qualifying equipment and or software purchased or financed during the tax year. That means that if the taxpayer buys (or leases) a piece of qualifying equipment, he or she can deduct the full purchase price from his or her gross income. The deduction is an incentive created by the U.S. government to encourage businesses to buy equipment and invest in themselves.

The Protecting Americans from Tax Hikes (PATH) Act of 2015 retroactively extended the Section 179 deduction limit to $500,000. This Section 179 deduction will be permanent at the $500,000 level. Businesses exceeding a total of $2 million of purchases in qualifying equipment will have the Section 179 deduction phase-out dollar-for-dollar and completely eliminated above $2.5 million. Additionally, the Section 179 cap will be indexed to inflation in $10,000 increments in future years.

The taxpayer should keep in mind that to qualify for the Section 179 Deduction, the equipment listed below must be purchased and put into use between January 1, 2016 and December 31, 2016:

- Computers.
- Computer off-the-shelf software.
- Office furniture.
- Office equipment.
- Equipment (machines, etc) purchased for business use.
- Tangible personal property used in business.
- Business Vehicles with a gross vehicle weight in excess of 6,000lbs (Section 179 Vehicle Deductions).
- Property attached to the taxpayer’s building that is not a structural component of the building (i.e.: a printing press, large manufacturing tools and equipment).
- Partial Business Use (equipment that is purchased for business use and personal use: generally, the taxpayer’s deduction will be based on the percentage of time he or she uses the equipment).

Off-the-shelf computer software put in service during the tax year is qualifying property for purposes of the Section 179 deduction. This includes computer software that is readily available for purchase by the general public, is subject to a nonexclusive license, and has not been substantially modified. It is any program designed to cause a computer to perform a desired function. However, a database or similar item is not considered computer software unless it is in the public domain and is incidental to the operation of otherwise qualifying software.

For passenger vehicles, trucks, and vans (not meeting the guidelines below), that are used more than 50% in a qualified business use, the total deduction for depreciation including both the Section 179 expense deduction as well as Bonus Depreciation is limited to $11,060 for cars and $11,160 for trucks and vans. For later years, the taxpayer must compute his or her depreciation on the car or truck using the usual methods. As long as the taxpayer continues to use the car more than 50% for business, he or she would multiply the business percentage of the car's cost by the percentage shown in the normal MACRS table for five-year property.

Exceptions include the following vehicles:

- Taxis, transport vans, and other vehicles used to specifically transport people or property for hire.
- Ambulance or hearse used specifically in a taxpayer’s business.
- Qualified non-personal use vehicles specifically modified for business (i.e. van without seating behind driver, permanent shelving installed, and exterior painted with company’s name).
Certain vehicles (with a gross vehicle weight rating above 6,000lbs but no more than 14,000lbs) qualify for expensing up to $25,000 if the vehicle is financed and placed in service prior to December 31 and meets other conditions.

Many vehicles that by their nature are not likely to be used for personal purposes qualify for full Section 179 deduction including the following vehicles:

1. Heavy non-SUV vehicles with a cargo area at least six feet in interior length (this area must not be easily accessible from the passenger area.).
2. Vehicles that can seat nine-plus passengers behind the driver's seat (i.e.: Hotel / Airport shuttle vans, etc.).
3. Vehicles with a fully-enclosed driver's compartment / cargo area, no seating at all behind the driver's seat, and no part of the body section protruding more than 30 inches ahead of the leading edge of the windshield.

Some of the property and equipment that does not qualify for the Section 179 Deduction is:

- Property used outside the United States generally does not qualify for the Section 179 Deduction.
- Property that is used to furnish lodging is generally not qualified for the Section 179 Deduction.
- Real Property does not qualify for the Section 179 Deduction. Real Property is typically defined as land, buildings, permanent structures and the components of the permanent structures (including improvements). Other examples of property that would not qualify for the Section 179 Deduction include paved parking areas and fences.
- Air conditioning and heating equipment is generally not eligible for the Section 179 Deduction.
- Property acquired by gift or inheritance, as well as property purchased from related parties does not qualify for the Section 179 Deduction (No, a taxpayer cannot sell equipment to him or herself and qualify for Section 179).
- Any property that is not considered to be personal property, may not qualify for the Section 179 Deduction.
- Used Equipment (that is new to the taxpayer) qualifies for Section 179, however used equipment does not qualify for Bonus Depreciation.

**Bonus Depreciation**

The 50% Bonus Depreciation was also extended by the PATH Act of 2015 through 2019. Businesses of all sizes will be able to depreciate 50% of the cost of equipment acquired and put in service during 2015, 2016 and 2017. Then bonus depreciation will phase down to 40% in 2018 and 30% in 2019.

The most important difference is both new and used equipment qualify for the Section 179 Deduction (as long as the used equipment is "new to the taxpayer"), while Bonus Depreciation covers new equipment only. Bonus Depreciation is useful to very large businesses spending more than the Section 179 Spending Cap (currently $2,000,000) on new capital equipment. Also, businesses with a net loss are still qualified to deduct some of the cost of new equipment and carry-forward the loss.

When applying these provisions, Section 179 is generally taken first, followed by Bonus Depreciation - unless the business had no taxable profit, because the unprofitable business is allowed to carry the loss forward to future years.

**Unrecovered Basis**

There are limits on the amount a taxpayer can deduct for depreciation of his or her car, truck, or van. The Section 179 deduction is treated as depreciation for purposes of the limits. The maximum amount a taxpayer can deduct each year depends on the year he or she puts the car in service.

If the depreciation deductions for the taxpayer’s car are reduced, he or she will have unrecovered basis in his or her car at the end of the recovery period. If the taxpayer continues to use his or her car for business, he or she can deduct that unrecovered basis (subject to depreciation limits) after the recovery period ends.

Unrecovered basis is the taxpayer’s cost or other basis in the car reduced by any clean-fuel vehicle deduction (for vehicles placed in service before January 1, 2006), alternative motor vehicle credit, electric vehicle credit, gas guzzler tax, and depreciation (the special depreciation allowance has expired) and Section 179 deductions that would have been allowable if the taxpayer had used the car 100% for business and investment use.
For 5-year property, the taxpayer’s recovery period is 6 calendar years. A part year’s depreciation is allowed in the first calendar year, a full year's depreciation is allowed in each of the next 4 calendar years, and a part year's depreciation is allowed in the 6th calendar year.

Under MACRS, the taxpayer’s recovery period is the same whether he or she utilizes declining balance or straight line depreciation. The taxpayer determines his or her unrecovered basis in the 7th year after he or she placed the car in service.

If the taxpayer continues to use his or her car for business after the recovery period, he or she is due a depreciation deduction in each succeeding tax year until he or she recovers the basis in the car. The maximum amount the taxpayer can deduct each year is determined by the date he or she placed the car in service and his or her business-use percentage. For example, no deduction is allowed for a year the taxpayer uses a car 100% for personal purposes.

Per Revenue Procedure 2011-26 the IRS provides a safe harbor accounting method. This procedure provides guidance with respect to the 100% additional first year depreciation deduction under Section 168(k)(5) of the Code, and the extension of the 50% bonus depreciation deduction for qualified property placed in service in 2010.

This procedure defines which property is eligible for the 100% bonus depreciation deduction and provides guidance regarding the time and manner for making certain elections under Sections 168(k)(2) and (5). The procedure also provides a safe harbor method of accounting for passenger automobiles that qualify for the 100% additional first year depreciation deduction and that are subject to first-year limitations under Section 280F.

The taxpayer selects the safe harbor method by choosing it to deduct depreciation on a passenger car on the return of the year that follows the placed-in-service year of the car when the cost exceeded the first-year luxury auto limit and the 100% bonus depreciation deduction was claimed.

Sales and Other Dispositions of Capital Assets

The use of Form 8949 - Sales and Other Dispositions of Capital Assets by corporations and partnerships is new. Many transactions that, in previous years, would have been reported by corporations and partnerships on Schedule D or Schedule D-1 now must be reported on Form 8949.

Tax Court Decisions

**PPL Corporation v. Commissioner**

On May 20, 2013, the Supreme Court announced its unanimous decision in PPL Corporation v. Commissioner, concluding that the taxpayer was entitled to claim a foreign tax credit for payments made under the U.K. Windfall Tax Act. Although only a few taxpayers are affected by this decision, the amounts involved make it a significant issue and the decision offers useful guidance with respect to other foreign taxes by applying a substance-over-form analysis.

**Windsor v. United States**

On June 26, 2013, the Supreme Court issued its opinion in Windsor v. United States, and found Section 3 of the Defense of Marriage Act (DOMA) unconstitutional. Section 3 of DOMA denied same-sex marriages Federal recognition for more than 1,000 Federal statutes and programs, including many provisions in the Internal Revenue Code.

In Windsor, the Court held that Section 3 of DOMA is unconstitutional because it violates the principles of equal protection, and on August 29, 2013, the IRS announced the publication of Revenue Ruling 2013–17, which held for Federal tax purposes, the terms spouse, husband and wife, husband, and wife include an individual married to a person of the same sex if the individuals are lawfully married under state law, and the term marriage includes such a marriage between individuals of the same sex. However, the terms spouse, husband and wife, husband, and wife do not include individuals (whether of the opposite sex or the same sex) who have entered into a registered domestic partnership, civil union, or other similar formal relationship recognized under state law that is not denounced as a marriage under the laws of that state, and the term marriage does not include such formal relationships. (22)
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**Bobrow v. Commissioner**

Also, the Tax Court recently held that a taxpayer cannot make a non-taxable rollover from one IRA to another if he or she has already made a rollover from any of his or her IRAs in the preceding 1-year period (Bobrow v. Commissioner, T.C. Memo. 2014-21). Following the holding in this decision means a taxpayer must include in gross income any previously untaxed amounts distributed from an IRA if he or she made an IRA-to-IRA rollover in the preceding 12 months and the taxpayer may be subject to the 10% early withdrawal tax on the amount he or she includes in gross income. Additionally, if the taxpayer pays these amounts into another (or the same) IRA, the amounts may be excess contributions and taxed at 6% per year as long as they remain in the IRA.

**Clark v. Rameker**

Bankruptcy Code 11 U.S.C. Section 522(b)(3)(C) exempts from the bankruptcy estate retirement funds to the extent that those funds are in a fund or account that is exempt from taxation under Section 401, 403, 408, 408A, 414, 457, or 501(a) of the Internal Revenue Code of 1986. On June 12, 2012, the U.S. Supreme Court in Clark v. Rameker unanimously ruled in an opinion by Justice Sotomayor that the phrase "retirement funds" does not include an inherited IRA.

The Court ruled that inherited IRA funds are not retirement funds and therefore not exempt in bankruptcy for the following three reasons: (23)

1. **Per IRC Section 219(d)(4)** - The holder of an inherited IRA may never invest additional money in the account.
2. **Per IRC Sections 408(a)(6), 401(a)(9)(B)** - Holders of inherited IRAs are required to withdraw money from the accounts, no matter how far they are from retirement.
3. **Per IRC Section 72(t)(2)(A)(ii)** - The holder of an inherited IRA may withdraw the entire balance of the account at any time, and use it for any purpose, without a 10% premature distribution penalty.

Clark argued that Section 522 of the Bankruptcy Code includes inherited IRAs, evidenced by unambiguous statutory language and Congress’s intent. Rameker argued that inherited IRAs are not meant to be exempted like other retirement funds because they must be taken out, without any consequences, before a beneficiaries’ retirement. The Court’s decision will have wide ranging implications for parties' access to funds in inherited IRAs during bankruptcy proceedings.

**United States v. Hom**

In a recent case, the court upheld the IRS’s imposed penalties for not filing FBARs for an online gaming account with an out-of-the-country online casino (Hom (District Court CA 6/4/2014)). In that case, the taxpayer gambled online and had accounts worth more than $10,000 during the years in question with two online poker companies. He used a third company, an online financial organization to facilitate the transferring of money to and from his two poker accounts; he also had more than $10,000 in the third company’s account during one of the years in question. The taxpayer was assessed 31 penalties for his non-willful failure to submit FBARs, regarding his interest in his three online accounts.
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