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All You Need to Know about the New Tax Extender Legislation

Article Highlights:

- Individual Provisions
- Business Provisions
- Energy Provisions

Congress has reached a bipartisan agreement on tax extenders, aptly named "Protecting Americans from Tax Hikes Act of 2015". Much to everyone's surprise, some were made permanent while others were only extended for a period of time. Congress also modified several provisions and added new ones to reduce tax fraud. Here is a look at some of the key provisions included in the legislation that pertain to individuals, small businesses, and certain energy-related provisions:

INDIVIDUAL PROVISIONS:

- **Child Credit** – This credit was made permanent; it provides a $1,000 credit for each dependent child who is under the age of 17 at year's end, who lived with the taxpayer for over half of the year and who meets the relationship test. The credit phases out for higher-income taxpayers, and a portion of the credit is refundable for lower-income taxpayers. The changes also include program integrity provisions that prohibit an individual from retroactively claiming the child credit by amending a return (or filing an original return if he or she failed to file) for any prior year in which the individual for whom the credit is claimed did not have an ITIN – generally a Social Security number).

  After 2015, when a taxpayer improperly claims the credit, the legislation includes a disallowance period when no credit is allowed. For fraud, the disallowance period is 10 years, and for reckless or intentional disregard of rules and regulations, the disallowance period is 2 years.

- **American Opportunity Credit (AOTC)** – This credit, which was due to expire after 2017, has been made permanent. This is a tax credit equal to 40% of the cost of tuition and qualifying expenses for higher education, with a maximum credit of $2,500. The credit applies to 100% of the first $2,000 and 25% of the next $2,000 of qualifying expenses. The credit offsets any tax liability, and 40% of the credit is refundable even if the taxpayer does not have any tax liability. It also phases out between $160,000 and $180,000 for married taxpayers filing jointly and between $80,000 and $90,000 for others – except for married taxpayers filing separately, who get no credit.

  After 2015, when a taxpayer improperly claims the credit, the legislation includes a disallowance period when no credit is allowed. For fraud, the disallowance period is 10 years, and for reckless or intentional disregard of rules and regulations, the disallowance period is 2 years.

  A provision was added that prohibits an individual from retroactively claiming the AOTC by amending a return or filing a late original return for any prior year when the individual or a student for whom the credit is claimed did not have an ITIN (generally a Social Security number).

- **Earned Income Tax Credit (EITC) –** The EITC is a refundable credit allowed to certain low-income workers who have W-2 wages and self-employed income. The credit is larger for taxpayers with children. The credit for taxpayers with children is based upon the number of children; those with three or more children receive the highest credit – as much as $6,269 in 2015. The higher credit for three or more children, which was a temporary provision that was set to expire after 2017, has been made permanent.

The changes also include added program integrity provisions that prohibit an individual from retroactively claiming the AOTC by amending a return (or filing an original return if the individual failed to file) for any prior year in which the individual for whom the credit is claimed did not have an ITIN (generally a Social Security number). The changes also reduced the marriage penalty by increasing the income phase-out for those filing jointly.

- **Teachers' $250 Above-the-Line Deduction –** This provision, which was available from 2002 through 2014, allows teachers and other eligible educators (levels kindergarten through grade 12) to take an above-the-line deduction of up to $250 for unreimbursed expenses incurred as part of their educational work. This deduction has been made permanent and modified by adjusting the $250 for inflation in years after 2015. In addition, professional development expenses were added to the qualified expenses allowed as part of the $250 deduction.
- **Transit Pass & Parking Fringe Benefit Parity –** From 2010 through 2014, the monthly exclusion amount for employer-paid transit passes and qualified parking were temporarily the same. The parity of these two fringe benefits has been made permanent. Thus, for 2015 they will both be $250.
- **Optional Deduction of State and Local General Sales Taxes –** Since 2004, taxpayers who itemized their deductions have had the option to deduct the **Larger** of (1) state and local income tax paid during the year, or (2) state and local sales tax paid during the year. This provision, which had been previously extended through 2014, provides the greatest benefit to those taxpayers who reside in a state that has no income tax (which include Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming). This election has been made permanent.
- **Above-the-Line Deduction for Qualified Tuition and Related Expenses** – This above-the-line deduction for qualified higher education tuition and related expenses had been available from 2002 through 2014. The deduction includes adjusted gross income (AGI) limitations; it is not allowed for joint filers with an AGI of $160,000 or more ($85,000 for other filing statuses). This deduction has been retroactively extended through 2016.
- **Tax-Free IRA Distributions For Charitable Purposes –** This provision was temporarily added in 2004 and originally expired in 2011; it was not extended until late in the year during the years 2012, 2013 and 2014, thus limiting its application in those three years. The provision allows taxpayers age 70.5 and over to directly transfer (not rolled over) funds from their IRA accounts to a qualified charity. The distribution is not taxable, but it does count toward the individuals' required minimum distribution (RMD) for the year. The maximum allowable transfer is $100,000 per year. No charitable deduction is allowed, as the distribution is not taxable. This provision has been made permanent; it provides four potential tax advantages:
    1. The distribution is not included in income, thus lowering the taxpayer's AGI, which in turn helps to avoid various AGI phase-outs and limitations.
    2. Keeping the AGI lower also helps to minimize the amount of Social Security income that is subject to tax for some taxpayers.
    3. Taxpayers using the standard deduction cannot get a charitable deduction, but they are essentially deducting the charitable deduction from their gross income when making contributions this way.

4. The transferred distribution counts towards the taxpayer's RMD for the year.

- **Discharge of Qualified Principal Residence Indebtedness –** When an individual loses his or her home to foreclosure, abandonment or short sale or has a portion of his or her loan forgiven under the HAMP mortgage reduction plan, that person generally will end up with cancellation of debt (COD) income. COD income is taxable unless the taxpayer can exclude it. A taxpayer can exclude the COD income in the extent that he or she is insolvent (with debts exceeding assets immediately before the event occurs) using the insolvency exclusion.

  Due to the housing market crash, in 2007, Congress added the qualified principal residence COD exclusion, which allowed taxpayers to exclude COD income to the extent that it was discharged acquisition debt. Acquisition debt is debt originally incurred to acquire a home or substantially improve it – not debt used for other purposes, which is called equity debt. However, equity debt is deemed to be discharged first, thus limiting the exclusion when both equity and acquisition debt are involved in the transaction.

  The qualified principal residence COD exclusion had been previously extended but had expired at the end of 2014. This exclusion has been <u>retroactively extended through 2016</u> (a two-year extension).

- **Mortgage Insurance Premiums –** For tax years 2007 through 2014, taxpayers could deduct (as an itemized deduction) the cost of premiums for qualified mortgage insurance on a qualified personal residence (first or second home). To be deductible, the premiums must have been related to acquisition debt incurred after Dec. 31, 2006. However, this deduction phases out for higher-income taxpayers (generally those whose AGI exceeds $100,000). This provision, which had expired after 2014, has been <u>retroactively extended through 2016</u>, a two-year extension.

BUSINESS PROVISIONS:

- **Research Credit –** Tax law provides a tax credit of up to 20% of qualified expenditures for businesses that develop, design or improve products, processes, techniques, formulas or software (and similar activities). The credit has been available off and on since 1981 without being made permanent. It had been extended several times but had expired at the end of 2014. This credit has been <u>retroactively made permanent</u>. In addition, it is not a tax preference for small businesses.

- **100% Exclusion of Gain – Certain Small Business Stock –** Previously, for stock issued after September 27, 2010, and before January 1, 2015, non-corporate taxpayers could exclude 100% of any gain realized on the sale or exchange of "qualified small business stock" held for more than 5 years. In addition, there was no alternative minimum tax (AMT) preference when the exclusion percentage was 100%. Generally, the term "qualified small business" means any domestic C corporation with assets of $50 million or less. This provision has been <u>made permanent</u>.

- **Differential Wage Payment Credit –** Through 2014, eligible small business employers – generally those that have an average of fewer than 50 employees and that pay a individual called into active duty military service all or part of the wages that they would have otherwise received from the employer – can claim a credit. This differential wage payment credit is equal to 20% of up to $20,000 of differential pay made to an employee during the tax year. This credit has been <u>retroactively made permanent</u>; for years after 2015, the credit will apply to any size employer.

- **Work Opportunity Tax Credit (WOTC) –** Through 2014, employers could elect to claim a WOTC for up to 40% of employees' first-year wages for hiring workers from targeted groups – not exceeding wages of $6,000 (a maximum credit of $2,400). First-year wages are wages paid during the tax year for work performed during the one-year period beginning on the date when the employee begins work for the employer. This credit has been retroactively extended for five years through 2019; it applies to veterans and non-veterans and adds qualified long-term unemployment recipients to the list of targeted groups for years after 2015.

- **Section 179 Election –** Since 2003, the Section 179 election has been temporarily increased from its statutory limit of $25,000 to between $100,000 and $500,000. Since 2010, the expense cap has been $500,000 (or $250,000 on a married-filing-separate tax return), and the investment limit has been $2 million. However, the last extension expired after 2014; without an extension, the cap would have returned to the statutory $25,000 limit in 2015. The statutory expensing limit of $500,000 and the $2 million investment limit have both been made permanent.

  The application of the Section 179 election to "off-the-shelf" computer software, qualified leasehold improvements, qualified restaurant property and qualified retail improvements has also been made permanent.

- **Leasehold and Retail Improvements and Restaurant Property –** The class life for qualified leasehold and retail Improvements and restaurant property had been temporarily included in the 15-year depreciation class life, as opposed to the 31-year category. Qualified leasehold and retail Improvements and restaurant property have been retroactively and permanently included in the 15-year MACRS class life.

- **Bonus Depreciation –** As a means of stimulating the economy, a 50 percent bonus depreciation was temporarily implemented in 2008 and subsequently extended through 2014. For the period between September 8, 2010, and before January 1, 2012, it was even boosted to 100 percent. Bonus depreciation applies to personal tangible property placed in service during the year for which the original use began with the taxpayer.

  The 50% bonus depreciation has been extended for 2 years (through 2016) for property placed in service before January 1, 2017. This generally applies to property with a class life of 20 years or less, to qualified leasehold improvements and to certain plants bearing fruits and nuts that are planted or grafted before January 1, 2020.

- **Enhanced First-Year Depreciation for Autos and Trucks –** This is the so-called "luxury limit" on the deprecation deduction of passenger automobiles and light trucks used for business. For such vehicles placed in service in 2015, the limits are $3,160 and $3,460, respectively. In the past, the bonus depreciation had increased the first-year luxury limits by $8,000. Under the new law, the bonus depreciation applicable to luxury vehicles will be phased out through 2019. Thus, the luxury auto rates will be increased by the following bonus depreciation rates: $8,000 for 2015 through 2017, $6,000 for 2018 and $4,800 for 2019.

ENERGY PROVISIONS:

- **Residential Energy (Efficient) Property Credit –** From 2006 through 2014, a nonrefundable credit had been available for qualified improvements to make the taxpayer's existing primary home more energy efficient. Qualified improvements generally included insulation, storm windows and doors certain types of energy-efficient roofing materials, and energy-efficient air conditioning and hot-water systems. The credit was equal to 10% of the improvement's cost (not including installation), with a lifetime credit of $500. The credit has been retroactively extended through 2016 (two years).

- **Credit for Fuel-Cell Vehicles –** Through 2014, a taxpayer could claim a credit for vehicles fueled by chemically combining oxygen with hydrogen to create electricity. Generally, the credit was $4,000 for vehicles weighing 8,500 pounds or less (and up to $40,000 for heavier vehicles, depending on their weight). An additional $1,000 to $4,000 credit was available for cars and light trucks to the extent that their fuel economy exceeded the 2002 base fuel economy set forth in the Internal Revenue Code. This credit has been retroactively extended for two years through 2016.

If you have questions related to these or other, less commonly encountered provisions of the new law (Protecting Americans from Tax Hikes Act of 2015), please give this office a call. Benefiting from these provisions for 2015 will require taking action before year's end. Please call if you need assistance.

Important Reminder for Purchasing Your Health Insurance Through The Government Marketplace

Article Highlights:
- Determining Household Income
- The Advanced Premium Tax Credit
- Marketplace Estimate of Income
- Modified Adjusted Gross Income
- Who Is Family for Health Insurance Purposes?

When applying for insurance through a state or the federal health insurance marketplace, you will be asked to provide an estimate of your household income for 2016. Your household income is a key factor in determining if you are qualified for an insurance subsidy called the premium tax credit (PTC). Any premium tax credit that you are entitled to will be computed on your 2016 tax return when it is filed in 2017. However, the insurance marketplace will allow you to reduce your insurance premiums during the year by applying this credit in advance based upon the estimate of your household income you provided when applying for the insurance. This advance is referred to as the advanced premium tax credit (APTC).

It is very important to remember that the PTC is based on the actual family income when your tax return is filed in 2017—not on the estimate you provided when you enrolled—and if the APTC you received during 2016 was more than the PTC you are entitled to based upon your household income, you may be required to repay all or part of the APTC you received during 2016. Thus, it is important to correctly estimate your family's household income when applying for the insurance and to report any significant income changes during the year on the insurance marketplace.

Household income includes the modified adjusted gross income (MAGI) of everyone in your family who is required to file a tax return. Your family includes you, your spouse, and everyone you are entitled to claim as a dependent on your tax return. MAGI is your family's adjusted gross income (AGI) plus nontaxable social security, nontaxable interest and excluded foreign earned income.

As an example, say that you are married with one child. You have a W-2 income of $35,000 and nontaxable interest income of $150. Your spouse does not work, but your 16-year-old child works at a fast food restaurant and has a W-2 income of $4,000 for the year. Your AGI would be $35,000, which includes only your W-2 income. However, your MAGI would be $35,150 because it includes the nontaxable interest income. Since your child's W-2 income is less than $6,300 (the standard deduction for 2016), your child is not required to file a tax return, and your child's income (MAGI) is not included in the household income. Thus, your household income would be $35,150.

However, if your child's W-2 income had been $7,000 (exceeding the standard deduction for the year), the child would have to file a tax return, and the child's income would have to be included when determining your household income, which in this case would be $42,150 ($35,150 + $7,000). The addition of the child's income to the household will significantly reduce the amount of PTC you are entitled to, and not including it when estimating your income will most likely result in you having to repay a significant amount of APTC on your 2016 tax return.

The computation of household income can become complicated when dependent children are working and when one or more forms of nontaxable income are received by a family member. It may be appropriate to consult with this office for assistance when determining household income.

Don't Be a Victim to IRS Phone and E-Mail Scams

Thieves use taxpayers' natural fear of the IRS and other government entities to ply their scams, including e-mail and phone scams, to steal your money. They also use phishing schemes to trick you into divulging your SSN, date of birth, account numbers, passwords and other personal data that allow them to scam the IRS and others using your name and destroy your credit in the process. They are clever and are always coming up with new and unique schemes to trick you.

These scams have reached epidemic proportions, and this article will hopefully provide you with the knowledge to identify scams and avoid becoming a victim.

The very first thing you should be aware of is that the IRS never initiates contact in any other way than by U.S. mail. **So if you receive an e-mail or a phone call out of the blue with no prior contact, then it is a scam. DO NOT RESPOND to the e-mail or open any links included in the e-mail. If it is a phone call, simply HANG UP.**

Additionally, it is important for taxpayers to know that the IRS:

- Never asks for credit card, debit card, or prepaid card information over the telephone.
- Never insists that taxpayers use a specific payment method to pay tax obligations.
- Never requests immediate payment over the telephone.
- Will not take enforcement action immediately following a phone conversation. Taxpayers usually receive prior written notification of IRS enforcement action involving IRS tax liens or levies.

Phone Scams

Potential phone scam victims may be told that they owe money that must be paid immediately to the IRS or, on the flip side, that they are entitled to big refunds. When unsuccessful the first time, sometimes phone scammers call back trying a new strategy. Other characteristics of these scams include:

- Scammers use fake names and IRS badge numbers. They generally use common names and surnames to identify themselves.

Scammers may be able to recite the last four digits of a victim's Social Security number. Make sure you do not provide the rest of the number or your birth date.

- Scammers alter the IRS toll-free number that shows up on caller ID to make it appear that the IRS is calling.
- Scammers sometimes send bogus IRS e-mails to some victims to support their bogus calls.
- Victims hear background noise of other calls being conducted to mimic a call site.
- After threatening victims with jail time or driver's license revocation, scammers hang up. Soon, others call back pretending to be from the local police or DMV, and the caller ID supports their claim.

DON'T GET HOODWINKED. This is a scam. If you get a phone call from someone claiming to be from the IRS, DO NOT give the caller any information or money. Instead, you should immediately hang up. Call this office if you are concerned about the validity of the call.

IRS E-Mail Scam

Always remember, the first contact you will receive from the IRS will be by U.S. mail. If you receive e-mail or a phone call claiming to be from the IRS, consider it a scam.

Do not respond or click through to any embedded links. Instead, help the government combat these scams by forwarding the e-mail to phishing@irs.gov.

Unscrupulous people are out there dreaming up schemes to get your money. They become very active toward the end of the year and during tax season. They create bogus e-mails disguised as authentic e-mails from the IRS, your bank, or your credit card company, none of which ever request information that way. They are trying to trick you into divulging personal and financial information they can use to invade your bank accounts, make charges against your credit card or pretend to be you to file phony tax returns or apply for loans or credit cards. Don't be a victim.

STOP-THINK-DELETE.

Scammers become very active toward the end of the year and during tax season.

What they try to do is trick you into divulging your personal information, such bank account numbers, passwords, credit card numbers, Social Security numbers, etc.

You need to be very careful when responding to e-mails asking you to update such things as your account information, pin number, password, etc. First and foremost, you should be aware that no legitimate company would make such a request by e-mail. If you get such e-mails, they should be deleted and ignored, just like spam e-mails.

We have seen bogus e-mails that looked like they were from the IRS, well-known banks, credit card companies and other pseudo-legitimate enterprises. The intent is to trick you and have you click through to a website that also appears legitimate where they have you enter your secure information. Here are some examples:

- E-mails that appeared to be from the IRS indicating you have a refund coming and that IRS official need information to process the refund. The IRS never initiates communication via e-mail! Right away, you know it is bogus. If you are concerned, please feel free to call this office.
- E-mails from a bank indicating it is holding a wire transfer and needs your bank routing information and account number. Don't respond; if in doubt, call your bank.
- E-mails saying you have a foreign inheritance and require your bank information to wire the funds. The funds that will get wired are yours going the other way. **Remember, if it is too good to be true, it generally is not true.**

We could go on and on with examples. The key here is for you to be highly suspicious of any e-mail requesting personal or financial information.

What's in Your Wallet?

What is in your wallet or purse can make a big difference if it is stolen. Besides the credit cards and whatever cash or valuables you might be carrying, you also need to be concerned about your identity being stolen, which is a far more serious problem. Thieves can use your identity to set up phony bank accounts, take out loans, file bogus tax returns and otherwise invade your finances, and all an identity thief needs to be able to do these things is your name, Social Security number, and birth date.

Think about it: your driver's license has two of the three keys to your identity. And if you also carry your Social Security card or Medicare card, bingo! An identity thief then has all the information he needs.

You can always cancel stolen credit cards or close compromised bank and charge accounts, but when someone steals your identity and opens accounts you don't know about, you can't take any mitigating action.

So if you carry your Social Security card along with your driver's license, you may wish to rethink that habit for identity-safety purposes.

What You Should NEVER Do:

Never provide financial information over the phone, via the Internet or by e-mail unless you are absolutely sure of with whom you are dealing. That includes:

- *Social Security Number* – Always resist giving your Social Security number to anyone. The more firms or individuals who have it, the greater the chance it can be stolen.
- *Birth Date* – Your birth date is frequently used as a cross check with your Social Security number. A combination of birth date and Social Security number can open many doors for ID thieves. Is your birth date posted on social media? Maybe it should not be! That goes for your children, as well.
- *Bank Account and Bank Routing Numbers* – These along with your name and address will allow thieves to tap your bank accounts. To counter this threat, many banks now provide automated e-mails alerting you to account withdrawals and deposits.
- *Credit/Debit Card Numbers* – Be especially cautious with these numbers, since they provide thieves with easy access to your accounts.

There are individuals whose sole intent is to steal your identity and sell it to others. Limit your exposure by minimizing the number of charges and credit card accounts you have. The more accounts have your information, the greater the chances of it being stolen. Don’t think all the big firms are safe; there have been several high-profile database breaches in the last year.

Email Phishing

Phishing (pronounced “fishing”) is the attempt to acquire sensitive information such as usernames, passwords, and credit card details (and sometimes, indirectly, money) by masquerading as a trustworthy entity in an electronic communication.

Communications purporting to be from popular social websites, auction sites, banks, online payment processors or IT administrators are commonly used to lure the unsuspecting public. Phishing e-mails may contain links to websites that are infected with malware. Phishing is typically carried out by e-mail spoofing or instant messaging, and it often directs users to enter details into a fake website that looks and feels almost identical to a legitimate one.

In the meantime, imagine trying to file your return and it gets rejected as already filed. You attempt to get a copy of the return but can’t because you don’t have the ID of the other unfortunate taxpayer who was used as the other spouse on the return. All the while, the scammers are enjoying their ill-gotten gains with impunity.

Fake Charities

Another fraud and ID theft scam associated with tax preparation involves charity scams. The fraudsters pop up whenever there are natural disasters, such as earthquakes or floods, trying to coax your client into making a donation that will go into the scammer’s pockets and not to help the victims of the disaster. These same crooks might also steal your client’s identity for other schemes. They use the phone, mail, e-mail, websites and social networking sites to perpetrate their crimes.

When disaster strikes, you can be sure that scam artists will be close behind. It is a natural instinct to want to provide assistance right away, but potential donors should exercise caution and make sure their hard-earned dollars go for the purpose intended, not to line the pockets of scam artists. You need to make your clients aware of this type of fraud.

The following are some tips to avoid fraudulent fundraisers:

- **Donate to known and trusted charities**. Be on the alert for charities that seem to have sprung up overnight in connection with current events.
- **Ask if a caller is a paid fundraiser**, who he/she works for and what percentage of the donation goes to the charity and to the fundraiser. If a clear answer is not provided, consider donating to a different organization.
- **Don't give out personal or financial information**—including a credit card or bank account number—unless the charity is known and reputable.
- **Never send cash**. The organization may never receive the donation, and there won't be a record for tax purposes.
- **Never wire money to a charity**. It's like sending cash.
- **If a donation request comes from a group claiming to help a local community agency** (such as local police or firefighters), ask the people at the local agency if they have heard of the group and are getting financial support.
- Check out the charity with the Better Business Bureau (BBB), Wise Giving Alliance, Charity Navigator, Charity Watch, or IRS.gov.

Protecting Against Identity

Theft To give you an idea of just how big a problem identity theft has become for the IRS, it currently has more than 3,000 employees working on identity theft cases and has trained more than 35,000 employees who work with taxpayers to recognize identity theft and provide assistance when it occurs.

When ID theft happens, it becomes a huge problem for the taxpayer and the taxpayer's tax preparer. So, the best way to combat ID theft is to protect against it in the first place and avoid becoming one of those unfortunate individuals who have to deal with it. Here are some tips to prevent you from becoming a victim:

- Never carry a Social Security card or any documents that include your Social Security number (SSN) or Individual Taxpayer Identification Number (ITIN).
- Don't give anyone your own or a family member's SSN or ITIN just because they ask. Give it only when required.
- Protect financial information.
- Check your credit report every 12 months. Secure personal information at home.
- Protect personal computers by using firewalls and anti-spam/virus software, updating security patches and changing passwords for Internet accounts.
- Portable computers, tablets and smartphones can be stolen or lost. Limit the amount of personal information they contain that can be used for ID theft. Be extra vigilant against theft.

- Don't give personal information over the phone, through the mail or on the Internet without validating the source.

Are Legal Expenses Tax Deductible?

Article Highlights:

- Legal Fees Associated with Personal, Living, or Family Issues
- Legal Fees Associated with Business and the Production of Taxable Income
- Examples of Legal Fees and Their Deductibility
- The Tax Benefit of Legal Fee Deductions

A frequent question that arises is whether legal expenses are deductible. The answer to that question can be both yes and no and can be complicated depending upon the nature of the legal expense. The Internal Revenue Code (IRC), which is the body of tax laws written by the United States (U.S.) Congress and approved by the president in office at the time the law is created, tells us that except as otherwise expressly provided, such as itemized deductions, no deduction shall be allowed for personal, living, or family expenses.

The IRC also says that, in the case of an individual, deductions are allowed for all of the ordinary and necessary expenses paid or incurred during the taxable year:

- For the production or collection of taxable income;
- For the management, conservation, or maintenance of property held for the production of income; or
- In connection with the determination, collection, or refund of any tax.

Applying those IRC provisions will allow you to determine whether a legal expense you've incurred is deductible or not, but the application can sometimes be complicated and also must take into account the Internal Revenue Service's (IRS's) interpretation of the law through rulings and regulations as well as the courts' opinions on all of the above. The following are some frequently encountered situations and how legal expenses paid in those situations should be handled:

- **Divorce** - Legal costs, such as attorney fees and court costs, connected with divorce, separation, or support are non-deductible personal expenses. Non-deductibility extends to legal fees incurred in disputes over money claims. However, legal and accounting fees paid for tax advice in connection with the divorce are deductible, provided the amounts for those services are delineated on the legal firm's billings.

- **Taxable Alimony -** The part of legal fees attributable to producing taxable alimony is deductible by the recipient of the alimony. The attorney's statement or invoice should stipulate what part of the fee relates to alimony to ensure a deduction for the alimony recipient. Legal fees paid by the payer of the alimony are not deductible. Because child support payments are not taxable, fees paid to obtain those payments are not deductible.

- **Conduct of a Business -** Legal fees incurred by a taxpayer in the course of a trade or business are generally deductible if they are ordinary and necessary expenses of the business.

- **Relating to Insurance Proceeds -** Legal fees to collect on a claim related to a taxpayer's business are currently deductible, but legal fees related to a personal loss are not deductible. However, where a loss is associated with a capital asset, such as a taxpayer's personal home, the related expenses can be added to the home's tax basis and be used to offset any taxable gain in the future.

- **Producing or Collecting Taxable Income:** Attorney fees, court costs, and similar expenses are deductible if incurred during the production or collection of taxable income. A reasonably close connection must exist between the legal expense and the production or collection of the taxable income.
- **Bankruptcy** – Legal fees connected with a business bankruptcy are deductible. If personal bankruptcy is primarily caused by the failure of a business activity, the legal fees related to the bankruptcy proceedings are partially deductible as a business expense. The courts have used a proration of the fees based on the ratio of business creditor claims to total creditor claims.
- **Managing, Conserving, or Maintaining Income-Producing Property** – Legal fees related to managing, conserving, or maintaining income-producing property are generally deductible. However, just because a taxpayer may have to sell income-producing property to satisfy a possible adverse judgment doesn't mean he/she can deduct the cost of defending the suit under this provision.
- **Related to Title of Property –** Although legal expenses to acquire, perfect, defend, or clear title to property currently can't be deducted as business or investment expenses, they are capital expenditures whose cost may be recovered through depreciation, depletion, or cost recovery. Incurred legal expenses related to title of personal property, such as a principal residence, aren't deductible but can be added to the basis of the property.
- **Damage Suits –** Legal fees for defending and filing damage suits in a taxpayer's business or in employment are deductible. Examples include expenses paid for defending a suit for wrongfully taking property; settling a damage suit against a business, which could help to avoid adverse publicity and controversy; getting a judgment for damages to rental real estate; and a teacher's action of sex discrimination against a university.
- **Damages for Personal Injury or Sickness –** In some cases, damages for personal injury or sickness can be excluded from income. Thus, the legal fees paid to secure such income are not deductible if the damage award is not taxable. However, to the extent that the damage award is taxable or accrued interest is paid on the settlement funds, the legal fees are deductible. Where the funds are partially taxable and partially excludable, the legal expenses have to be prorated in the same ratio as the income is.
- **Will and Trust Document Preparation –** The cost of legal fees for preparing a will is considered a personal expense that is not deductible. In most cases, the legal cost of creating a living trust is similarly treated as a personal, nondeductible expense. However, if the attorney who prepares the trust indicates on the billing statement the amount of the fee that is for tax planning or tax advice, the tax-related portion of the fee is deductible.
- **Criminal Cases -** Legal fees incurred to defend against criminal charges related to a taxpayer's trade or business are deductible. This is true even if the taxpayer is convicted of the crime. However, legal defense expenses incurred by an individual charged with a crime are personal and generally not deductible.
- **Tax Issues** – Legal fees associated with obtaining tax advice, having tax returns prepared, and defending a taxpayer being audited are all specifically included as deductible legal expenses.

Just because legal fees are deductible doesn't necessarily mean you will receive any tax benefit from the deduction. While some legal fees can be deducted on business schedules and provide the maximum benefit, others have to be deducted as a miscellaneous itemized deductions, the total of which is subject to a 2% of AGI deduction floor. In addition, miscellaneous itemized deductions are not deductible for alternative minimum tax (AMT) purposes.

As you can see, determining which legal expenses are deductible is complicated, and even if allowed, a deduction may not provide any tax benefit. As every circumstance is unique, you are encouraged to call this office to determine if you will derive any tax benefit from your legal expenses.

Unpaid Debt Can Take Your Refund

Article Highlights:

- Bureau of the Fiscal Service
- Allowable Refund Offsets
- Disputing an Offset
- Injured Spouse Claim

As the 2015 tax season approaches, you may be getting excited about your potential tax refund.

However, that excitement may be premature if you have outstanding federal or state debts. The Treasury Department's Bureau of the Fiscal Service (BFS) issues federal tax refunds, and Congress authorizes BFS to reduce your refund through its Treasury Offset Program (TOP) to pay:

- Past-due child and parent support;
- Federal agency non-tax debts;
- State income tax obligations; or
- Certain unemployment compensation debts owed to a state.

So, if you owe a debt that's past-due, it can reduce your federal tax refund and all or part of your refund may go to pay your outstanding federal or state debt if it has been submitted for tax refund offset by an agency of the federal or state government.

If you have an outstanding debt and want to be proactive, you can contact the agency with which you have a debt to determine if your debt was submitted for a tax refund offset. You may call BFS's TOP call center at 800-304-3107 or TDD 866-297-0517, Monday through Friday, 7:30 a.m. to 5 p.m. CST.

If your debt was submitted for offset, BFS will reduce your refund as needed to pay off the debt and send it to the agency you owe. Any portion of your remaining refund after offset is issued in a check or is direct deposited as originally requested on the return.

If you choose to wait and see what happens when you file your return, BFS will send you a notice if an offset occurs. If you wish to dispute the amount taken from your refund, you will have to contact the agency that submitted the offset claim. It will be shown on the notice you will receive from the BFS.

If you filed a joint tax return, and only one spouse is responsible for the debt, the other spouse may be entitled to part of or all the refund. To request the refund of the spouse that is not responsible for the offset, you can file Form 8379, Injured Spouse Allocation. The benefits provided under the injured spouse allocation will generally not apply if you reside in a community property state.

Please contact this office if have you have questions about refund offsets.

Traditional to Roth IRA Conversions - Should You? Did You? Wish You Hadn't?

Article Highlights:

- Conversion Timing
- Why Convert?
- When to Convert?
- Undoing A Conversion
- Issues to Consider Before Making the Decision

The tax provision that allows taxpayers to convert a Traditional IRA to a Roth IRA is a great tax-planning tool when used properly, **<u>and timing is everything</u>**.

To make a conversion, you must pay income taxes on the amount of the traditional IRA converted to a Roth IRA. So why would one want to do that? Well, the answer is that Roth IRAs enjoy tax-free accumulation and distributions, whereas the earnings in and contributions made to a traditional IRA are fully taxable whenever they are withdrawn. (An exception is if the contributions to the traditional IRA were treated as non-deductible. In that case, each distribution is nontaxable or partly nontaxable if only some of the contributions had not been deducted.)

So, you might consider converting during a year in which your income is abnormally low or a year in which your income might even be negative due to abnormal deductions or business losses. Under such cases, you might even be able to make a conversion tax-free. Keep in mind that you do not have to convert the entire amount in the traditional IRA; rather, you can choose any amount you wish to convert to fit your circumstances, and with proper tax planning, you can substantially minimize the conversion tax and the tax on your future retirement benefits.

You might also consider a conversion at a time when the IRA value is low due to a decline in the stock market, like the dip in stock values that occurred in September this year when the Dow index dropped from the low 18,000s to close to 16,000.

Those examples demonstrate when timing might be right for a conversion. On the flip side, if you converted earlier in the year, you could end up paying taxes on an amount that has declined in value due to the market downturn and wish you hadn't converted. Well, the good news is that you can undo a conversion.

A taxpayer who converts a traditional IRA to a Roth IRA during 2015 can back out of the conversion by recharacterizing the Roth IRA as a traditional IRA any time up to the extended due date of the 2015 return. This involves transferring the converted amount (plus earnings or minus losses) from the Roth IRA back to a traditional IRA via a direct (trustee-to-trustee) transfer.

Everyone's financial circumstances are unique and other issues to consider are:

- Are there enough years before retirement to recoup the conversion tax dollars through tax-free accumulation?
- Will you be in a lower or higher tax bracket in the future?
- Where would the money to pay the conversion tax come from? Generally, it must be from separate funds. If it is taken from the IRA being converted, for individuals under age 59½, the funds withdrawn to pay the tax will also be subject to the 10% early-distribution penalty in addition to being taxed.

- It might be appropriate for you to design your own custom conversion plan over a number of years rather than converting everything at once.

Conversions can be tricky! If you are considering a conversion, it might be appropriate to call for an appointment so that this office can help you properly analyze your conversion options.

IRS reports a date error on the recent Identity Protection PIN letters

Each year the IRS issues special filing numbers that take the place of Social Security Numbers (SSN) for taxpayers whose identity has been compromised or is suspected of being compromised.

The purpose is to prevent ID thieves from being able to use stolen SSNs to file fraudulent returns. The IRS blocks those SSNs from being filed, thus thwarting the ability of ID thieves to use the stolen SSN to file. Meanwhile, the taxpayer uses the special six-digit number called the “identity protection pin number” (IP PIN) to file his or her legitimate return.

The IRS issues these numbers just before the beginning of tax filing season to affected taxpayers for use in filing their tax returns. The IRS just recently issued the IP PINs for filing 2015 tax year returns. However, the letter mistakenly indicated the IP PINs were for the 2014 tax year, which was a typo. The just-released numbers issued on form letter CP01A are in fact to be used to file 2015 tax returns.

Which 1040 Is The Right One For You?

Article Highlights:

- Form 1040-EZ
- Form 1040-A
- Form 1040
- Affordable Care Act
- Using the 1040-EZ Could Be A Mistake

When Benjamin Franklin said that nothing is certain but death and taxes, he managed to name two of the things that people loathe and fear the most. One of the things that makes taxes so unpleasant is obviously the fact that you have to hand over some of your hard-earned money to the government, and the other is that it can be so difficult to figure out how to fill out the forms – and which one to use.

The rule of thumb for choosing your personal income tax form is to try to go with the one that is easiest to understand, but that being said, you also need to be sure that it is the one that is correct. The government provides three forms – the 1040, the 1040A, and the 1040EZ – and all are meant to help you pay the amount that you owe. But each form has a different purpose, and if you choose the wrong one, it can end up meaning that you either pay more than you owe or end up having to pay fines for not paying enough.

The simplest form is the one known as the EZ, while the long Form 1040 is the most complicated. Though it may be tempting to go for the one that takes the least amount of time to complete, if you simply jump for the fastest way through your filing responsibilities, you may end up cheating yourself of the opportunity to take some of the tax breaks to which you’re entitled. That’s because the more detail the form asks for, the more chances there are for you to provide information that may entitle you to a write-off.

The Affordable Care Act Might Preclude the Use of the EZ - Many people who were formerly able to file Form 1040EZ may find that they are no longer eligible to use this short form. This is because those who purchase health insurance through a state or federal exchange under the Affordable Care Act have the option to receive advance payment of the premium tax credit, which helps pay some of the costs of the insurance. In order to ensure that you receive the appropriate amount of credit, the taxpayer is required to submit all appropriate information on Form 8962, which cannot be filed with the 1040EZ – it can only be submitted with Form 1040 or 1040a. Though this means that taxpayers have to do a bit more paperwork, but it ensures that the proper amount of credit is taken and also provides the opportunity for the government to reimburse you if not enough of a credit is provided.

How Using The EZ May Be A Mistake - In some cases, using the 1040EZ can end up costing you money. This is because the short form, which is often the one selected by taxpayers who believe that their uncomplicated finances make it the most appropriate for them, does not provide the opportunity to take advantage of tax breaks you may be entitled to. For example, a recent college graduate who was just hired by his first employer would naturally assume that his taxes are so simple that there's no need to fuss with a longer form. But doing so eliminates the possibility of taking a write-off for any interest that he paid on a student loan. Similarly, if he was wise and started setting aside money into a traditional IRA upon learning that his new employer offered no retirement plan, then his contributions would be deductible – but the short form doesn't even ask that question. He might end up in a lower tax bracket by using the long form and would be able to pay just fifteen percent on taxes rather than 25 percent, simply based on these two deductions. Another deduction that can be taken on a 1040 or 1040A but not on a 1040EZ is the Lifetime Learning tax credit for courses taken to improve job skills – and there are many more. Form 1040EZ has the advantage of being simple, but it can end up working against you if you want to get the greatest possible deduction.

Reviewing the Three Tax Returns - It can be difficult to know which of the three tax returns is the right one for you and your particular situation. Here is some basic information on each one to provide you with a better sense of which you should choose.

Form 1040EZ - This simplest of all of the IRS forms is open to people who meet the following criteria:

- You are filing as either single or as married filing jointly
- You are younger than 65. If you are filing a joint return with your spouse, then your spouse must also be younger than 65. If your 65th birthday (or your spouse's 65th birthday) falls on January 1 of the tax year, then you are considered to have turned 65 in the previous year, and will become ineligible to use the form.
- Neither you nor your spouse (if filing jointly) can have been legally blind during the tax year.
- You cannot have dependents and use this form.
- Your interest income must be less than $1,500.
- Your income (or joint income if filing with your spouse) must be less than $100,000.

Though the 1040 EZ does make things easier by being just one page long, it minimizes the amount of deductions that you are able to take. The 1040EZ limits taxpayers to taking just the earned income tax credit, and it may end up cheating you of deductions to which you are entitled. For that reason, it makes sense to consider the other forms that are available.

Form 1040A - Form 1040A is available regardless of what the taxpayer's filing status is. Those who file as single, married filing either separately or jointly, head of household, or qualifying widow or widower can all use this form. In addition to having this advantage, it also provides the opportunity to claim more than just the earned income tax credit. Taxpayers are also able to take advantage of tax credits for their children, education, dependent care, retirement savings credits, and elderly or disabled care. All of these deductions are available using the 1040A, but not the 1040EZ. Additional criteria for using the 1040A include:

- You must have taxable income (or combined incomes) below $100,000.
- You cannot itemize deductions.
- You can have capital gain distributions but cannot have capital losses or gains.

There are other adjustments allowed for those using Form 1040A. These are known as above-the-line deductions, and they reduce the total gross income counted against you for tax purposes. By using these adjustments, you are able to reduce your overall tax burden. These adjustments include some IRA contributions, educator expenses, college tuition and fees, and student loan interest.

Form 1040 - For those who have higher incomes, need to itemize their deductions, or have investments and income that require a more complicated tax preparation, the appropriate form is the 1040. The 1040 generally requires additional documentation and forms, but using it is often the only way to get the additional savings that are due to the taxpayer. Some of these credits include deductions for taxes paid in a foreign country, deductions for the cost of adopting a child, and a number of above-the-line deductions that are not available with the other forms. The purpose of having these other adjustments available is to provide people with the greatest opportunity to reduce their gross income, thereby reducing the overall tax burden. People who use Form 1040 are able to take deductions for self-employment taxes that have been paid, moving taxes, alimony payments, and more. There is no need to use a form Schedule A, as the available deductions are already listed on the front page of the 1040 – however, certain forms or schedules may need to be completed and attached.

Although any taxpayer can use the 1040, it is most generally used by taxpayers:

- Who itemize their deductions,
- Who are self-employed, or
- Who have capital gain income from the sale of stocks or other assets.

If you are still uncertain as to which form is most appropriate for you, IRS Publication 17 provides many answers and details, including special circumstances and specific examples.
It is important to remember that just because a form was appropriate for you in the past, it may not be in the future, and there is no requirement that you use it again. It may be appropriate for you to consult with a professional tax preparer to ensure you receive all the tax breaks and benefits you are entitled to.

Holiday Charity Donation Tips

Article Highlights:

- Long-Form Itemization Required
- Qualified Charities Only
- Cash Donations
- Non-cash Donations
- Year-End Donations

During the holidays, many charities solicit gifts of money or property. This article includes tips for documenting your charitable gifts so that you can claim a deduction on your tax return and advice for how not to be scammed by criminals trying to trick you into sending charitable donations to them.

To claim a charitable deduction you must itemize your deductions; if you don't, there is no need to keep any records. In addition, only contributions to qualified charities are deductible. Of course, we all know that the Red Cross, Salvation Army, and Cancer Society are legitimate, qualified charities, but what about small or local charities? To make sure a charity is qualified, use the IRS Select Check tool. You can always deduct gifts to churches, synagogues, temples, mosques, and government agencies—even if the Select Check tool does not list them in its database.

The documentation requirements for cash and non-cash contributions are different. A donor may not claim a deduction for a cash, check, or other monetary gift unless the donor maintains a record of the contribution in the form of either a bank record (such as a cancelled check) or a written communication from the charity (such as a receipt or a letter) showing the name of the charity, the date of the contribution, and the amount of the contribution. In addition, if the contribution is $250 or more, the donor must also get an acknowledgment from the charity for each deductible donation.

When contributions are made via payroll deductions, a pay stub, Form W-2 or other verifying document should be maintained as verification of the gift. It must show the total amount withheld for charity. In addition, be sure to retain the pledge card showing the name of the charity.

Non-cash contributions are also deductible. Generally, contributions of this type must be in good condition, and they can include food, art, jewelry, clothing, furniture, furnishings, electronics, appliances, and linens. Items of minimal value (such as underwear and socks) are generally not deductible. The deductible amount is the fair-market value of the items at the time of the donation, and as with cash donations, if the value is $250 or more, you save an acknowledgment from the charity for each deductible donation. Be aware: the door hangers left by many charities after picking up a donation do not meet the acknowledgement criteria; in one court case, taxpayers were denied their charitable deduction because their acknowledgement consisted only of door hangers. When a non-cash contribution is $500 or more, the IRS requires Form 8283 to be included with the return, and when the donation is $5,000 or more, a certified appraisal is generally required.

Special rules also apply to donations of used vehicles when the deduction claimed exceeds $500. The deductible amount is based upon the charity's use of the vehicle, and Form 8283 is required. A charity accepting used vehicles as donations is required to provide Form 1098-C (or an equivalent) to properly document the donation.

There are also special rules for purchasing capital assets for a charity, such as travel, personal vehicle use, entertainment, and placement of students in a home. Please call for information related to these issues.

Charitable contributions are deductible in the year in which you make them. If you charge a gift to a credit card before the end of the year, it will count for 2015. This is true even if you don't pay the credit card bill until 2016. In addition, a check will count for 2015 as long as you mail it in 2015.

If you have questions or concerns about your 2015 charitable donations or about the documentation required to claim deductions for them, please call this office.

ABLE Accounts And Individuals With Disabilities

Article Highlights:

- Asset limitations when receiving Medicaid or federal Supplemental Security Income
- $100,000 account limit
- Similar to Sec 529 education savings accounts
- Annual limit on contributions
- Qualified expenses

Congress created Achieving Better Life Experience (ABLE) accounts in 2014. Prior to the creation of the ABLE accounts, individuals with disabilities who were eligible for Medicaid or federal Supplemental Security Income were limited to a maximum of $2,000 in assets, such as bank savings accounts.

However, ABLE accounts allow disabled people to have up to $100,000 in these accounts without jeopardizing their Medicaid or Supplemental Security Income.

Each state must enact its own legislation to make these accounts available in that particular state. Several have already done so or are in the process of doing so.

ABLE accounts are fashioned after qualified state tuition programs, sometimes referred to as Section 529 plans. Although there is no tax benefit associated with contributions to the accounts, the earnings in the accounts accumulate tax-free and are also tax-free if used for qualified expenses such as health care, education, legal, housing and transportation expenses. As a note of caution, qualified expenses do not include food, entertainment or vacations.

The accounts are available to individuals who became disabled before the age of 26. Once an account is established, anyone can contribute to it, provided that the sum of the contributions for the year does not exceed the annual gift tax exclusion, which is currently $14,000. These accounts are a less-expensive substitute for special needs trusts, which have significant administration costs. If contributions will exceed the annual gifting limit and $100,000 overall, a special needs trust will be required.

While ABLE accounts do fill a need, there are some downsides, including the current $14,000 per year limit on contributions; restrictions on using the funds for food, vacations and entertainment; and the fact that if the beneficiary passes away, the remaining funds cannot be left to siblings or others.

Jointly or Separately - How to File After Saying I Do

Article Summary:

- Filing Options
- Married Filing Jointly
- Unpleasant Consequences
- Pleasant Consequences
- Married Filing Separately

A taxpayer's filing status for the year is based upon his or her marital status at the close of the tax year. Thus, if you get married on the last day of the tax year, you are treated as married for the entire year. The options for married couples are to file jointly or separately. Both statuses can result in surprises for individuals who previously filed as unmarried. The surprises can be both pleasant and unpleasant.

Individuals filing jointly must combine their incomes, and if both spouses are working, combining income can trigger a number of unpleasant surprises, as many tax benefits are eliminated or reduced for higher-income taxpayers. The following are some of the more frequently encountered issues created by higher incomes:

- Being pushed into a higher tax bracket
- Causing capital gains to be taxed at higher rates
- Reducing the child care credit
- Limiting the deductible IRA amount
- Triggering a tax on net investment income that only applies to higher-income taxpayers
- Causing Social Security income to be taxed.
- Reducing the Earned Income Tax Credit

- Reducing or eliminating medical and/or miscellaneous itemized deductions
- Causing the overall itemized deductions to be phased out
- Causing the personal exemption deduction to be phased out

Filing separately generally will not alleviate the aforementioned issues because the tax code includes provisions to prevent married taxpayers from circumventing the loss of tax benefits that apply to higher-income taxpayers by filing separately.

On the other hand, if only one spouse has income, filing jointly will generally result in a lower tax because of the lower joint tax brackets and the additional exemption provided by the non-working spouse. In addition, some of the higher-income limitations that might have applied to an unmarried individual with the same amount of income may be reduced or eliminated on a joint return.

Filing as married but separate will generally result in a higher combined income tax for married taxpayers. The tax laws are written to prevent married taxpayers from filing separately to circumvent a limitation that would apply to them if they filed jointly. For instance, if a couple files separately, the tax code requires both to itemize their deductions if either does so, meaning that if one itemizes, the other cannot take the standard deduction. Another example relates to how a married couple's Social Security (SS) benefits are taxed: on a joint return, none of the SS income is taxed until half of the SS benefits plus other income exceeds $32,000. On a married-but-separate return, the taxable threshold is reduced to zero.

Aside from the amount of tax, another consideration that married couples need to be aware of when deciding on their filing status is that when married taxpayers file jointly, they become jointly and individually responsible (often referred to as *"jointly and severally liable"*) for the tax and interest or penalty due on their returns. This is true even if they later divorce. When using the married-but-separate filing status, each spouse is only responsible for his or her own tax liability.

If you would like to evaluate the impact of marriage on your tax liability before saying "I do," please give this office a call.

1099 Filing Date Just Around The Corner

Article Highlights:

- Independent Contractors
- 1099 Filing Requirement
- Due Dates
- Penalties
- Form W-9 and 1099 Worksheet

If you operate a business and engage the services of an individual (independent contractor) other than one who meets the definition of an employee and you pay him or her $600 or more for the calendar year, you are required to issue him or her a Form 1099 at the end of the year to avoid penalties and the prospect of losing the deduction for his or her labor and expenses in an audit.

The due date for mailing the recipient his or her copy of the 1099 that reports 2015 payments is February 1, 2016, while the copy that goes to the IRS is due at the end of February.

It is not uncommon to have a repairman out early in the year, pay him less than $600, then use his services again later in the year and have the total for the year exceed the $599 limit. As a result, you may have overlooked getting the information from the individual needed to file the 1099s for the year.

Therefore, it is good practice to always have individuals who are not incorporated complete and sign an IRS Form W-9 the first time you engage them and before you pay them. Having a properly completed and signed Form W-9 for all independent contractors and service providers eliminates any oversights and protects you against IRS penalties and conflicts. If you have been negligent in the past about having the W-9s completed, it would be a good idea to establish a procedure for getting each non-corporate independent contractor and service provider to fill out a W-9 and return it to you going forward.

IRS Form W-9, Request for Taxpayer Identification Number and Certification, is provided by the government as a means for you to obtain the data required to file 1099s for your vendors. It also provides you with verification that you complied with the law in case the vendor gave you incorrect information. We highly recommend that you have a potential vendor complete a Form W-9 prior to engaging in business with them. The W-9 is for your use only and is not submitted to the IRS.

The penalties for failure to file the required informational returns have been doubled this year and are $250 per informational return. The penalty is reduced to $50 if a correct but late information return is filed not later than the 30th day after the February 29, 2016, required filing date, or it is reduced to $100 for returns filed after the 30th day but no later than August 1, 2016. If you are required to file 250 or more information returns, you must file them electronically.

In order to avoid a penalty, copies of the 1099s you've issued for 2015 need to be sent to the IRS by February 29, 2016. They must be submitted on magnetic media or on optically scannable forms (OCR forms). This firm prepares 1099s for submission to the IRS. This service provides recipient copies and file copies for your records. Use the 1099 worksheet (http://images.client-sites.com/1099-Worksheet.pdf) to provide this office with the information needed to prepare your 1099s.

IRS Announces 2016 Standard Mileage Rates

Article Highlights:

- 2016 standard mileage rates
- Business, charitable, medical and moving rates
- Switching between the actual expense and the standard mileage rate methods
- Special allowances for SUVs

As it does every year, the Internal Revenue Service recently announced the inflation- adjusted 2016 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on Jan. 1, 2016, the standard mileage rates for the use of a car (or a van, pickup or panel truck) will be:

- 54.0 cents per mile for business miles driven (including a 24-cent-per-mile allocation for depreciation). This is down from 57.5 cents in 2015;
- 19 cents per mile driven for medical or moving purposes. This is down from 23 cents in 2015; and
- 14 cents per mile driven in service of charitable organizations.

The standard mileage rate for business is based on an annual study of the fixed and variable costs of operating an automobile. The rate for medical and moving purposes is based on the variable costs as determined by the same study. The rate for using an automobile while performing services for a charitable organization is statutorily set and has been 14 cents for over 15 years.

Taxpayers always have the option of calculating the actual costs of using their vehicle for business rather than using the standard mileage rates. With the extension of the bonus depreciation though 2019, using the actual expense method may be a worthwhile consideration in the first year the vehicle is placed in service. The bonus depreciation allowance adds an additional $8,000 to the maximum first year depreciation deduction of passenger vehicles and light trucks that have an unloaded gross vehicle weight of 6,000 pounds or less.

However, the standard mileage rates cannot be used if the actual method (using Sec. 179, bonus depreciation and/or MACRS depreciation) has been used in previous years. This rule is applied on a vehicle-by-vehicle basis. In addition, the business standard mileage rate cannot be used for any vehicle used for hire or for more than four vehicles used simultaneously.

Employer reimbursement – Where employers reimburse employees for business-related car expenses using the standard mileage allowance method for each substantiated employment-connected business mile, the reimbursement is tax-free if the employee substantiates to the employer the time, place, mileage and purpose of employment-connected business travel.

Employees whose actual employment-related business mileage expenses exceed the employer's reimbursement can deduct the difference on their income tax return as a miscellaneous itemized deduction subject to the 2%-of-AGI floor. However, an employee who leases an auto and is reimbursed using the mileage allowance method can't claim a deduction based on actual expenses unless he does so consistently beginning with the first business use of the auto.

Faster Write-Offs for Heavy Sport Utility Vehicles (SUVs) - Many of today's SUV vehicles weigh more than 6,000 pounds and are therefore not subject to the luxury auto depreciation limit rules; so taxpayers with these vehicles can utilize both the §179 expense deduction (up to a maximum of $25,000) and the bonus depreciation (the §179 deduction must be applied first and then the bonus depreciation) to produce a sizable first-year tax deduction. However, the vehicle cannot exceed a gross unloaded vehicle weight of 14,000 pounds. Caution: Business autos are 5-year class life property. If the taxpayer subsequently disposes of the vehicle early, before the end of the 5-year period, as many do, a portion of the §179 expense deduction will be recaptured and must be added back to income (SE income for self-employed individuals). The future ramifications of deducting all or a significant portion of the vehicle's cost using §179 should be considered.

If you have questions related to best methods of deducting the business use of your vehicle or the documentation required, please give this office a call.

Launching a Startup: 8 Steps to Make it Happen

Every year, thousands of entrepreneurs across the nation launch their own business. If you're ready to start your own business, here's a step-by-step overview of what you need to do to make your vision become a reality.

1. Start with an Idea and Brainstorm

Perhaps, you've already have zeroed in on a product or service for your new upstart. While having an idea is a good start, it's important to get your mental muscles turning and brainstorm that idea. Is there a demand for the product or service? Who is your target market? Are there additional related services or products that can be tied into the primary offering? Keep in mind that adjunct services and products are an effective way to increase your bottom line. Thinking about potential problems and having solutions in place will also help your launch run more smoothly. The key takeaway with brainstorming is that it's a powerful tool which will get you to think critically about your idea.

2. Draft a Business Plan

A business plan is the road map of your new business. It defines and clarifies the direction of your business, products or services and a description of your customers. It's also an effective way to plan for market changes and focuses on your future vision for company goals. When drafting your business plan, be sure to include facts, statistics and figures that support your idea. This will better help attract investors, partners, suppliers and executive level employees for your new venture. The typical business plan averages 15 to 20 pages and includes an overview of the plan, business description, development, competition analysis, management, market strategies and financial information. A business plan is required to secure funding at the start-up phase and your map to the future.

3. Fund Your Business

To turn your dream idea into a viable business, it's going to take money. There's no magic bullet here, so you'll have to explore your resources and determine which one is most attractive. You can opt for a credit line of credit or a bank loan. Just keep in mind that you'll have to have a solid credit history or existing assets to put up for collateral. Another option is to join a startup incubator. Organizations like Y Combinator not only provide free resources to startups, but seed funding. Some startups find funding from local angel-investor groups. Most metropolitan areas have groups of angel investors who are interested in supporting startups and willing to fund up to millions of dollars for qualified startups. Once of the newest ways to get funding to launch a business is to start a crowdfunding campaign online. Online sites like Kickstarter gives you the opportunity to have folks make pledges for a startup. Other ways to garner monies for your new company include getting a small business grant and asking strategic partners, friends or family members.

4. Select an Accountant and Attorney

Both an accountant and attorney should be on your startup team. Entrepreneurs must keep endless amounts of records for tax and legal purposes. An accountant can provide you with a wide range of services through the early stages, including business entity selection, expense tracking, business licenses, financial planning, month-end accounting, tax preparation, an accounting system, W2s and 1099s. Outsourcing an accounting firm lets you focus on your core business instead of non-core business. Accountants are also essential when it comes to raising funds, structuring deals and financial reporting. An attorney adds value to a startup in a variety of ways. Not only does an attorney assist with entity formation, they help you work with the government, third parties and other company founders. You don't want to violate any laws, and an attorney will keep you on the right side of the law. They help you draft the proper legal documents to control risk with suppliers, protect intellectual property rights, employees and customers. Plus, they can assist multiple founders of a startup in drafting up agreements that outline the rights and duties of each.

5. Apply for Tax ID and State Sales Tax Permit

You'll need to fill out a tax identification application to get your tax ID. This number identifies your business on all types of documents and registrations. As a matter of fact, most banks will require your tax ID before you can apply for a business loan or set up a business checking account. You can apply for a tax ID at the IRS website. Just print out a copy of the SS-4 form. And if you're selling any services or products that are subject to sales tax in your state, you must collect that tax from your customers and pay it to the state. It's important to note that if you have more than one location for your business, you must obtain and display a Sales and Use Tax Permit in each location.

6. Obtain a Business License

Your new business needs a business license in order to operate legally, even if you're operating from home. You can find all the information to do this at the SBA website or your city's business website. You'll need to know your business code. Different codes require a specific application process, and each city has its own set of rules and requirements. Generally, you'll have to provide your federal ID number, type of business, number of employees, business address, contact information and the name of the business owner.

7. Know the Labor Laws

Workers compensation coverage is required for businesses with more than three employees. If you have more than three employees, you'll need to attain workers compensation on a self-insured basis, through a commercial carrier or through the state Workers Compensation Insurance program. Employers are also required by federal and state laws to display posters in the workplace that inform employees of employer responsibilities and employee rights under labor laws. You can easily attain these posters free from state and federal labor agencies.

8. Choose a Business Location

Deciding where to set up shop is a critical business decision. The real estate mantra of "location, location, location" has merit for a successful business venture. You'll want to ensure that the area has the human resources to meet staffing needs. For example, if your startup is focused on detailed work, you most likely wouldn't want to choose a rural community for its location. Always investigate the available labor pool in your chosen area. Determine the demographic profile of your location. You'll need to know who your customers are and their proximity to your location. This is important if you're a retailer or in some type of service business. If you're customer base is local, you need to ensure that there is a sufficient percentage of the population that needs your product or services to support your business. The community of the location should also have a stable economic base.

Launching a new business takes a lot of planning and effort. Follow these steps, and you'll be in good shape to tackle the task. Contact this firm to help you with every step of the process.