2015 YEAR-END TAX LETTER

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IT'S TAX TIME AGAIN...

Once again, it's time to file and pay your taxes. Your mailbox should be filling up with the information you will need to get the job done.

This letter is full of information designed to help you prepare your tax documents so you will pay only the tax that you rightfully owe.

Time to get organized

The following checklist will help you collect the documents you'll need to file your tax return. When all of the boxes are checked, you're ready.

□ **Your last 3 years' tax returns** *(new client)*. Maybe we can amend and save money.

□ **Social Security numbers and dates of birth** are needed for all taxpayers, spouses and dependents.

□ **W-2 Forms.**

□ **Your last paycheck stub of the year** is full of information.

□ **1099 Forms for interest, dividends, retirement, Social Security, and unemployment** need to be entered correctly to comply with the IRS matching program.

□ **Property tax statements** contain important information. They list the tax (deductible) and special assessments (not deductible).

□ **Forms 1098 for mortgage interest** need to be entered as printed. The IRS cross checks.

□ **Year-end statements from investment accounts** with transaction details for the year

□ **Purchase and sale information,** including dates, relating to anything sold during 2015 is needed.

□ **Child care provider information** (name, address, SS#, amount paid) is needed for the child care credit (*even if you are reimbursed at work*).

□ **Names, addresses, and Social Security numbers** from whom you received interest, or to whom you paid interest.

□ **Bankruptcy or divorce papers** (if applicable).

□ **If you paid an individual person $600 or more for services rendered in connection with your business,** please provide their name, address, and tax ID number.

□ **Records showing income and expense for any small business or rental property you own** will be needed.

□ **If you have an investment in a Partnership, S Corporation, Estate or Trust** you will need to bring Form K-1.

□ **Bring IRA year-end statements.**

□ **Bring all other statements of income,** whether you think they are taxable or not.

□ **Forms 1098-T** amounts paid for post-secondary tuition are sent to the student. If the student is your dependent, you will need to obtain 1098-T from the student to get the credit.

□ **Bring your records of estimated taxes paid.**

□ **Student loan interest forms 1098-E.**

□ **Adoption costs** if applicable. Also bring the legal adoption documents.

□ **Form 1098-C for donations of automobiles or boats.**

□ **Details on all noncash donations greater than $500.** Include date, place, fair market value, and original cost.

□ **If you purchased a new fuel cell or electric plug-in vehicle in 2015,** bring the year, make and purchase date.

□ **Bring a voided check for direct deposit** of any refunds you expect to receive.

□ **Noncustodial parents claiming children** need a signed IRS Form 8332 to claim the child.

□ **If your mortgage was forgiven due to foreclosure,** bring Form 1099-C or 1099-A.

□ **If you bought a new home or refinanced your existing home** bring the closing papers.

□ **Information on energy saving home improvements** might get you a tax credit.

□ **If you were an investor caught in a Ponzi-type scheme,** bring the details.

□ **If you received Forms 1099-K for internet or credit card sales** please bring them.

□ **Proof of health insurance is needed.** Bring Form 1095 if you received one.

□ **Assets held outside the USA.** Bring statement(s). Such assets must be disclosed even if they do not generate taxable income.

Caution: *the IRS is very attentive to taxpayers who write off local travel costs.*

A daily log of business use is essential. Also, don't forget to record the beginning and the year-end odometer readings.

DEDUCTING MILEAGE?

Did you drive for charity? If so, you can deduct **14¢** for every mile you drove.

If your medical expenses are substantial, you may want to calculate a mileage deduction. Medical miles for 2015 are calculated at **23¢ per mile.**

If you drove for business purposes, the situation is a little more complicated: First decide which miles qualify.

Use the following three scenarios to determine how many miles you can deduct:

Keep in mind the following statement: **In general, commuting is not deductible.**

If you have an office or regular place of business outside your home, you may not deduct miles commuting to and from work or to your first or from your last stop, but you may deduct mileage to drive to a *temporary work place* (less than one year's duration) and mileage to and from different work locations during the day.

If you have an office in your home that qualifies for a home office deduction, all of your business-related mileage is deductible.

If you work out of your home but do not qualify for the home office deduction, the distance between home and your first stop and between your last stop and home are nondeductible commuting miles. You should carefully plan to have your first and last stops close to home to maximize the mileage deduction.

A trip to the bank, post office, or a supplier can help increase deductible business miles.

Once you have determined which miles to count, you need to decide whether to use the *standard mileage* rate or actual expenses.

The ***standard mileage rate*** *for qualified business use* for 2015 is **57.5¢ per mile** (up 1½ cent from 2014).

Which method is best?
In general, the standard method works best if your business miles are high or your vehicle is economical to run.

The actual expense method works best if your vehicle weighs over 6000 pounds, is costly to run, or you do not have that many miles in total.

DO YOU WORK AT HOME?

If you are self-employed, you may qualify for the home office deduction if you use a portion of your home **exclusively** as your principal place of business, to store inventory, or to conduct substantial management or administrative activities. There can be no other fixed location where the above activities can be done.

If you are an employee, your home office must be required by your employer.

The office space still needs to be **used regularly and exclusively for business**. You can not have any other usage of the area whatsoever. Using your office for personal or investment reasons eliminates the deduction as far as the IRS is concerned, so be careful to keep your office space and computer usage all business.

Having a deductible home office means you can deduct all of your local business travel as described earlier, and you will not have to keep a log of computer usage because your computer will be used exclusively for business.

If your office qualifies, you will need additional information: Measure the business space and the total space. You will also need your mortgage interest, taxes, insurance, association fees, repairs, maintenance, utilities, garbage, security, and rent paid. Also, provide an accounting of the total investment in your home.

The IRS has provided a simplified home office deduction, if you choose. Instead of calculating all of the above information, $5 per square foot can be deducted (maximum $1,500). The IRS estimates that the new calculation will save taxpayers 1.6 million hours per year.

To avail yourself of tax deductions, you need to be organized and well documented.

Save proof of all tax deductible purchases.

COMPUTER & CELL PHONE GUIDELINES

Did you buy a computer that you would like to deduct? You can use the following guide to determine what is deductible.

If you are an employee, a computer must be required as a condition of employment and for the convenience of your employer to be deductible.

If you are self-employed, the business percentage of computer usage, measured by time, is deductible.

If you use your computer for investments, the business percentage of use may also be deductible if you itemize.

If you are a student, the use of a computer is not deductible, but you can tap your 529 plan for a computer purchase.

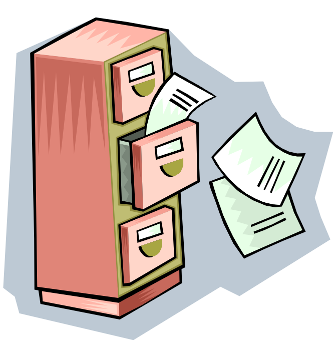
Keep a log of computer usage to support your deduction.

Cell phone deductions are as follows:

Employers providing cell phones do not have to require records of use to provide tax-free cell phones to employees.

Employees required to use cell phones for work can deduct cell phone use to the extent used for business.

Self employed individuals can deduct business cell phone usage. The IRS, however, still has a hard time believing a cell phone is 100% for business. It's wise to keep a log of use.



WHAT'S NEW FOR 2015?

You have more time than usual to file.

Due to Emancipation Day falling on Friday April 15th (a Friday), the deadline for filing your 2015 tax return is Monday, April 18th, 2016.

No increase in Social Security next year.

Social Security payments will not increase in 2016 (like they did in 2014 and 2015). Minimal inflation was cited as the reason for not increasing benefits. However, Medicare premiums are expected to rise for 1 in 3 seniors (so their Social Security payments will decrease).

Many tax provisions have been extended or made permanent.

On December 18th, 2015 the "Protecting Americans From Tax Hikes Act of 2015" was signed into law. This bill is estimated to save individuals and businesses $600B+ over 10 years. It extends or makes permanent 52 tax provisions… many of which are popular credits and deductions that affect everyday taxpayers (including credits and deductions for higher education, increased earned income credit and child tax credit… and many more). The bill also allows business owners to expense some purchases that they otherwise would write off over time.

The IRS continues to have budget issues.

The IRS budget has decreased by approximately 18% (adjusted for inflation) since 2010. President Obama has proposed a $2 billion increase in IRS funding for 2016 but Congress likely favors further cuts. Current IRS funds are being diverted away form taxpayer services so many of the delays experienced last year will persist (including longer waits for telephone service and correspondence). Audits are also being conducted at historically low levels.

Supreme Court rulings with tax implications.

The Supreme Court has upheld the **Affordable Care Act** health insurance subsidies. What this means for taxpayers is that The Affordable Care Act is still in effect and Premium Tax Credits (subsidies) are still available for those who qualify.

The Supreme Court has also ruled that **same-sex marriage** is a right guaranteed by the 14th Amendment. As such, states are now required to license and recognize lawful same-sex marriages. What this means for married same-sex couples is that they can now file jointly on state tax returns that previously did not recognize their marriage. However, the Supreme Court's ruling has no affect on Federal tax returns… that's because the IRS has been recognizing legal same-sex marriages since tax year 2013.

The penalty for not having health insurance increases.

The uninsured will pay a penalty of either 2% of household income or $325 per person (whichever is greater). Last year the Shared Responsibility Payment (which is what the IRS calls the penalty) was the greater of 1% of household income or $95 per person. Some individuals may qualify for an exemption to paying the penalty (this is a very complex topic… ask a tax professional if you qualify for an exemption).

Proof of health insurance will be easier.

If you have employer sponsored health insurance then there are new documents to look for in the mail. You should be receiving a 1095-C (or 1095-B) document as proof of having health insurance. These documents are supposed to be issued by January 31st (but expect delays since this is the first year).

For those that DO NOT get their insurance from an employer it will be the same as last year. As a reminder, those that purchased insurance on the Federal or state run exchanges will be issued a 1095-A document from the exchange. You will need this to complete your tax return (same as last year).

Tax scams (and hacking) continue…

Tax scams continue to be a big issue for the IRS and taxpayers. Scammers are now using every mode of communication (phone, email, fake websites, & fake letters that look like IRS letterhead) to trick people into giving sensitive information and direct payments to criminals. Taxpayers should assume that any communication could be a potential scam. Never act impulsively and always ask a trusted tax professional for advice.

The IRS' "Get Transcript" feature was **hacked** in 2015. Hackers stole over 100,000 tax returns. Taxpayers affected by the breach have been notified and were offered free credit monitoring and identity protection services (and the fair market value of the free services is tax free).

Other news for 2015.

Taxpayers are only allowed one IRA rollover per year. However, there is no limit on direct trustee-to-trustee rollovers.

Taxpayers have a new kind of tax free savings account for people with disabilities. An **ABLE account** allows donors to contribute up to $14,000 per year for the benefit of the disabled person. Contributions are not pre-tax but distributions from the account are tax free if used for qualified disability expenses. The accounts are restricted to people who became disabled before age 26. Other restrictions apply so ask your tax preparer if you qualify.

The IRS has clarified when donations to **crowd-funding** sites (like gofundme.com) are deductible… which is only when the recipient is a 501(c)3. Thus, donating to a friend or relative's campaign is not deductible (it is treated as a gift for tax purposes).

Tax year 2015 was going along quietly (tax wise)... until December. With Obama in the White House and a Republican controlled Congress there was an expectation of gridlock. However, they passed an extenders bill (named the "Protecting Americans From Tax Hikes Act of 2015") that extends many popular tax provisions BEYOND the current tax year.

On top of that we saw tax related Supreme Court rulings and year-two of the Affordable Care Act implementation.

Also, taxes on the same income as last year are lower due to indexing. It doesn't get any better than that.

These are only some of the highlights of the rulings and court cases that were passed affecting your 2015 tax situation. A good tax preparer can help you use these new decisions to their fullest.

Turn the page for some great year-end tax-saving ideas.

YEAR-END TAX SAVING TIPS

GIVE TO CHARITY

Not sure of where to start? Try charitynavigator.org for guidance.

Short of cash? You can still make a last minute gift. Charge your deductions on a credit card and pay later. Consider giving through www.justgive.org. You can privately give to thousands of rated charities with a credit card. Your donation goes directly to the charity, and www.justgive.org will send you a confirmation and a year-end summary to satisfy documentation requirements.

Or, better yet, you don't even have to spend money to take a charitable deduction. Clean out your closets of unwanted items to make a noncash gift. Keep in mind, the items must be in at least good condition. You should omit items of minimal value (socks and underwear), and thoroughly document the donation.

If you plan on donating a vehicle before year-end, beware of the rules. Select a charity that will either use or improve the vehicle, and you will be able to deduct *fair market value*. Otherwise your deduction will be limited to the price the charity got when they sold the vehicle. The charity will give you a 1098C documenting the contribution. The 1098C needs to be attached to your tax return.

If you have a stock or piece of property that has increased in value, you can deduct the full value and avoid paying capital gains tax by donating it to charity. If you want to give stock that has fallen in value, sell the stock, take the loss, and give the money to charity.

Keep in mind that proof of payment is needed for donations of any size. Proper documentation is essential.

CHECK YOUR TAX PAYMENTS TO AVOID PENALTIES

The IRS will charge a penalty if your tax for 2015 is less than 90% prepaid unless your payments are at least equal to last year's tax. (110% of last year's tax if your income exceeds $150,000).

You can boost your itemized deductions, and possibly save yourself from a penalty, by sending your last state estimated tax payment before December 31st or by stepping up your state withholding.

CHECK YOUR PORTFOLIO

If you are in the 15% tax bracket or lower (gross income under $47,750 (single) or under $95,500 (married)) you may be able to sell stocks or property at a gain in 2015 and pay no Federal tax. If you are in the above tax range, or even higher if you itemize and/or have dependents, it might be wise to check out the possibility.

If you missed out on last year's credits or deductions because your income went over the limits, it might be wise to check your portfolio for some losses to reduce your income. You can offset up to $3,000 of other income with stock losses. If you wish to repurchase the stock again, wait at least 31 days to avoid wash sale rules.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

In buying mutual fund shares, avoid the year-end tax trap. Year-end dividends may include a years worth of capital gain in a large taxable payout. The value of your shares declines by the amount of payout, so you end up paying tax on profits that reduce your share value.

SELF-EMPLOYED?

Shelter up to 20% of your net income in a SEP retirement plan. Besides current tax savings, money grows tax-deferred on these investments. A SEP contribution can be made up to the due date of your 2014 tax return, including extensions.

Pay all bills already received for operating expenses rather than deferring payment until 2016. If you need new equipment, save tax dollars now by purchasing before year-end. Remember that you can charge on a credit card and receive a current deduction.

To channel your income into next year for a cash basis business, you must be certain it is not constructively received. You can delay your billing to next year to defer income to 2016.

AND… THE FUTURE?

Now that the extenders bill (Protecting Americans From Tax Hikes Act of 2015) has been signed into law attention shifts to the future.

Some insiders believe that the extenders bill is a sign that bipartisan tax reform is not as impossible as it once seemed. That's because it made many of the tax provisions permanent… and also because both Democrats and Republicans benefited politically from its passing. However, true tax reform would be much more challenging because certain lawmakers would insist on a more balanced approach (the extenders bill was not balanced because it cut taxes without compensatory increases in tax revenue or reductions in spending).

President Obama has proposed ambitious tax reform goals (the details are posted on the Whitehouse.gov website). Aggressive action from Congress during the Obama administration is unlikely, but the President is still pushing the tax reform issue.

The basic strategy for year-end tax planning can be summed up in the following two statements:

- *Channel your income into the year where it will be taxed at a lower rate.*
- *Channel your deductions to the year where your income will be taxed at a higher rate.*

If you think that you need year-end tax planning, get in touch with a professional who knows the rules to help answer your questions.