# 2015 1040 Tax Law Update with Year-End Planning Ideas Presented by Claudia Hill, EA, M.B.A AAII Silicon Valley Chapter Investment Education Meetings for Individual Investors

# First, the good news...

 Individuals Have Extra Time to File in 2016



Monday, April 18

# Bad News? (Been there, done that)...extenders NOT extended, yet

- 1. State and local sales tax deduction
- 2. Above-the-line deduction for teacher's expenses
- 3. Above-the-line deduction for qualified tuition and related expenses
- 4. Deduction for mortgage insurance premiums as qualified interest

# We're still waiting...

- 5. Exclusion from gross income for discharge of principal residence debt
- 6. Rule allowing tax-free distributions from IRAs for charitable purposes
- IRC 179 and expanded definition has not yet changed
- 8. 50% bonus depreciation
- 9. 15-year cost recovery on qualified leasehold

# Administrative changes

- Standard Mileage Rates: .575/.23/.14
- Personal Exemption hits \$4000 (phase outs still apply starting at \$258,250 single and \$309,900 joint
- Standard Deduction: \$6,300/\$12,600
- AMT exemption
- Lifetime learning credit income limits
- Retirement savings contribution credit income limits
- Adoption credit or exclusion income limit

## Administrative changes

- EITC limits
- Social Security tax cap at \$118,500
- HSA \$3350 for an individual and \$6750 for family coverage
- Additional Medicare Tax at .9% continues on wages above \$200K single; \$250K Joint



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## 06/2015 Trade Bills include tax changes

- requires taxpayers to obtain a Form 1098-T in order to claim certain educational tax benefits,
   increases the penalties for failure to file correct
- information returns (e.g. Form 1099s),
  extends the Section 35 Health Care Tax Credit
- Precludes a taxpayer that excluded gross income under IRC Sec. 911 from claiming the refundable portion of the Section 24 child tax credit
   allows federal safety workers penalty-free withdrawals from gov retirement plans at 50

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9,225	37,450	\$922.50	+ 19%	9,225	13,150	50,200	\$1,315.00	+ 1	5%	13,158
37,450	90,750	5,156.25	+ 25%	37,450	50,200	129,600	6,872.50	+ 2	5%	50,200
90,750	189,300	18,481.25		90,750	129,600	209,850	26,722.58			129,600
189,300	411,500			189,300	209.850	411,500	49,152.50			209,858
411,500		119,401.25		411,500	411,500	439,000	115,737.00			411,500
413,200	***********	119,996.25	+ 39.6%	413,200	439,000	Orderteda:	125,362.00	+ 3	9.6%	439,000
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74,900	151,200			74,900	37,450	75,600	5,154.25			37,450
151,200	230,450	29,387.50		151,200	75,600	115,225	14,693.75			75,600
230,450	411,500	51,577.50		230,450	115,225	205,750	25,788.75			115,225
411,500	464,650	111,324.00		411,500	205,750	232,425	55,662.00			205,758
464.850	-	129,996.50	+ 39.6%	464,850	232,425	-	64,998.25	+ 3	9.6%	232,425

## **Capital Gains Rates?**

- Zero Percent
- 10%
- 15%
- 20%
  - 23.8%
  - 25%
  - 28%...or more

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	-
Hot Button Issues	
Problems Plaguing Taxpayers and the Tax System	
7.00	-
Indications your identity may have been	
stolen and how to report it to IRS	
stolen and now to report it to iks	
Your identity may have been stolen if you receive a letter	
from the IRS stating or <u>learn from a tax professional that</u>	
<ul> <li>1 you filed more than one tax return or someone</li> </ul>	
has already filed using your information.  2 you have a balance due, refund offset or have	
had collection actions taken against you for a year	
you did not file; and / or	
<ul> <li>3 you received wages from an employer you have not worked for.</li> </ul>	
<ul> <li>Use Form 14039 to notify IRS and request an IP PIN</li> </ul>	
Letter from the Editor, JTPP October-November 2015	
	-
<ul> <li>While most of the emphasis of identity theft reporting</li> </ul>	
has been on "someone took your social security number, and they might use it to cause you financial harm"	
the truth is that stolen social security number usage the IRS has been plagued with are related to stolen	
identity refund fraud. The theft is against the US	
Treasury; eventually (and I have had this type of case take over three years to resolution) the taxpayer is not	
denied their entitlement to the withholdings or estimated taxed they actually paid and these amounts	
are credited toward any tax they actually owed. To	
date, none of the stolen Social Śecurity Ńumber cases my office has work with has gone further than harm to	
the USTreasury.	

# One of the "Dirty Dozen" Tax Scams for 2015...(and 2014, and 2013, ...)

Offshore Tax Avoidance



- It's a bad bet to hide money and income offshore.
- Putting money into a foreign bank account is not illegal.
   Putting money into a
- Putting money into a foreign bank account for the sole purpose of hiding it from the IRS is illegal.

Offshore Compliance Programs Generate \$8 Billion; IRS Urges People to Take Advantage of Voluntary Disclosure Programs

IR-2015-116, Oct. 16, 2015
Under the Foreign Account Tax Compliance Act
(FATCA) and the network of intergovernmental
agreements (IGAs) between the U.S. and partner
jurisdictions, automatic third-party account
reporting began this year, making it less likely that
offshore financial accounts will go unnoticed by the
IRS

# **Exceptions to Tax on Early Retirement Distributions**

- The IRS found that almost 40% of the individuals made errors on their Form 1040 tax returns and most didn't qualify for the exception to the 10% early withdrawal penalty.
- USE the exception chart!



the 10% additional safety distributions (#15%, act.)    Age	The distribution will NOT be subject to	Exception to 10% Additional Tax				
where prefer in particular age is a control of the particular age in the particular age	the 10% additional early distribution tax in the following		IRA* and SARSEP			
convert reaches a gain  Automatic Exercitionest permission will dispute the SUPPLE DIAL to a glare with auto to a glare to	Age					
controllation underlational person and SARSEPs. (IRAs and SARSEPs.)  and SARSEPs.  Connection Distributions  corrective distributions are 401(0/8700).  40	owner reaches age	yes	yes	72(0(2)(A)(I)		
The marginar with subo even flower shurces  Corrective Christophories  Corrective Christophories  (and executed subdischories  (and executed subdischories  (and executed subdischories)  (and executed subdischories  (and executed subdischories)  (and executed subdischories)  (and executed subdischories)  (and of the subdischories  (blastifity)  Stand and germanent  dischories  (blastifity)  Stand and germanent  dischories  Connectific Standards  year  (processor (Standards)  (processor (Standards)  year  (processor (Standards)  (proces	Automatic Enrollment					
consisted distributions per consisted distributions per consisted distributions per consisted consisted and consisted consiste	from a plan with auto	yes		414(w)(1)(B)		
(one) associated several profession and project profession and project profession and project profession and make leavily.    Death	Corrective Distribution	18				
### dash of the per	(and associated earnings) of excess contributions, excess aggregate contributions and excess defemals,	jes	n/w	401(m)(7)(A).		
participant/9A nome    Distabling	Death					
West and personant   Pers		yes	yes	72(1)(2)(A)(II)		
disability of the participativitik conser	Disability					
to an alternate payee yes n/a 72(t)(2)(C) under a Qualified	disability of the	yes	yes	72(0(2)(A)(H)		
under a Qualified	Domestic Relations					
Domestic Relations Order	under a Qualified Domestic Relations	yes	n/a	72(t)(2)(C)		

Education			
qualified higher education expenses	no	yes	72(t)(2)(E)
Equal Payments			-
series of substantially equal payments	yes	yes	72(t)(2)(A)(iv)
ESOP			
dividend pass through from an ESOP	yes	n/a	72(t)(Z)(A)(vi)
Homebuyers			
qualified first-time homebuyers, up to \$10,000	no	yes	72(t)(2)(F)
Levy			- 0
because of an IRS levy of the plan	yes	yes	72(t)(2)(A)(vii)
Medical			
amount of unreimbursed medical expenses (>7.5% AGI; after 2012, 10% if under age 65)	yes	yes	72(1)(2)(B)
health insurance premiums paid while unemployed	no	yes	72(t)(2)(D)
Military			
certain distributions to qualified military reservists called to active duty	yes	yes	72(t)(2)(G)

Returned IRA Contrib	rtions	- 1	
if withdrawn by extended due date of return	n/a	yes	408(d)(4)
earnings on these returned contributions	n/a	no	408(d)(4)
Rollovers			
in-plan Roth rollovers or eligible distributions contributed to another retirement plan or IRA within 60 days	yes	yes	402(c), 402A(d)(3), 403(a)(4), 403(b)(8), 408(d)(3), 408A(d)(3)
Separation from Servi	ce		- in
the employee separates from service during or after the year the employee reaches age 55 (age 50 for public safety employees of a state, or political subdivision of a state, in a governmental defined benefit plan)**	yes	rio	72(0(2)(A)(v), 72(0(10)
tax except for distribution  "SIMPLE IRA distribution  of participation  ""Qualified public saft  Effective for distributions  are age 50 or over is explored  benefit plans qui  distributions from defined  defined benefit plans qui  distributions from defined	is attributable to roll is incur a 25% additi ety employees after December 31, anded to include sp it is a self-glates. Billy for the exemption contribution plans is	overs from another to conal tax instead of the 2015, the exception ecified federal law erand air traffic control is eliminated. Thus or other types of gove	re not subject to the 10% addition ppe of plan or IRA. 0% if made within the first 2 year for pubic safety employees who oforcement officers, custames and officers of the public subject of the IRA. Allo, the restriction that only is, an exemption is allowed for emmental plans, such as the TSI safety Employees' Retirement As

RMD's		Required Minimum Distributions for Account Owners				
		IRAs including SEP, SIMPLE and SARSEP IRAs	Defined Contribution Plans			
	When do I take my first RMD (the required beginning date)?	You must take your first RMD by April 1 of the year following the year in which you turn 70%; regardless of whether you are still employed.	April 1 of the year following the later of the year you turn 70 ½ or the year you retire (if allowed by your plan). If you are a 5% owner, you must shart RMDs by April 1 of the year following the year you turn 70%.			
	When do I reach age 70%?	lour reach tage 70% on the date that is calendarie another, aller the date but if your 70th birthday.  Exampler, Your 70th birthday was June 30, 2019. You reached age 70% on December 30, 2010. You must take your list 18MD 00 2010 by April 1, 2011.	Same as IRA rule			
	What is the deadline for taking subsequent FIMOs after the first FIMO?	After the first RMD, you must take subsequent RMDs by December 31 of each year beginning with the calendar year containing your required beginning date.  Example: You furn 70% on July 15. 2010. You must take your first RMD, for 2010, by Agel 1, 2011. You must take your first RMD, or 2010, by Agel 1, 2011. You must take your second RMD. for 2010. by Uncernible 31, 2011, and your third RMD. for 2010, by December 31, 2011, and your third RMD. for 2010, by December 31, 2012.	Same as IRA rule			

How do I canculate my FOMD?	Your BRD is generally determined by deviding the adjusted market value of your PRAs as of December 31 of the preceding year by the definition period that convergences with your age in the Uniform Edent Table (Table III) individual Professional Profession Table (Table III) individual Profession Table (Table III) individual Professional Profes	Same as IRA cale.  Your plan sponsorialministrator should calculate the RMO for you.
How should I take my RMDs if I have enable accounts?	If you have more than one IRA you must calculate the RNID for each IRA separatily each year. However, you may aggregate your RNID amounts for all of your IRAs and withdraw the total from one IRA or a portion from each of your IRAs and one that the provide of the provide one of IRA.	If you have more than one defined contribution plan, you must calculate and safely your RNUs separately for each plan and withdraw that amount from that plan. Exception: If you have mere than one 403(b) has shelhered annuty account, you can total the RMDs and then take them hern any one (or more) of the tax-sheltered annutiles.
May I withdraw more than the RMD?	Yes, an IRA owner can always withdraw more than the RMD. You cannot apply excess withdrawals toward future years' RMDs.	Same as IRA rule
May I take more than one withdrawal in a year to meet my RMD?	You may withdraw your annual RMD in any number of distributions throughout the year, as long as you withdraw the total annual minimum amount by December 31 (or April 1 if it is for your first RMD).	Same as IRA rule
What happens if I do not take the RMD?	If the distributions to you in any year are less than the RMD for that year, you are subject to an additional tax equal to 50% of the undistributed	Same as IRA rule

## Achieve a Better Life Experience Act – ABLE Accounts

- New tax-advantaged savings for disabled individuals
  - Contributions aren't deductible
  - Earnings are tax-free
- Closely modeled on §529 plans
- Contributions
  - Limited to annual gift tax exclusion
    - Good idea, but one BIG issue...

Year-End Planning  Yes, there's still a few things that might be worthwhile		
TAXES		

# Take a look at where you are...

- Sometimes making last-minute adjustments to income can make a big difference to taxes you'll be paying...or even your Medicare premiums
   In 2016, the standard Part B premium amount
- In 2016, the standard Part B premium amount will be \$121.80 (or higher depending on your income). However, most people who get Social Security benefits will continue to pay the same Part B premium amount as they paid in 2015. This is because there wasn't a cost-of-living increase for 2016 Social Security benefits

But, if your modified AGI as reported on your IRS tax return from 2 years ago is above a certain amount, that's not the case...

If your yearly income in 2014 (for what you pay in 2016) was				
File individual tax return	File joint tax return	File married & separate tax return	2016)	
\$85,000 or less	\$170,000 or less	\$85,000 or less	\$121.80	
above \$85,000 up to \$107,000	above \$170,000 up to \$214,000	Not applicable	\$170.50	
above \$107,000 up to \$160,000	above \$214,000 up to \$320,000	Not applicable	\$243.60	
above \$160,000 up to \$214,000	above \$320,000 up to \$428,000	above \$85,000 and up to \$129,000	\$316.70	
above \$214,000	above \$428,000	above \$129,000	\$389.80	

Medicare.gov

## Does the 3.8% Net Investment Income Tax (NIIT) Apply to You?

- NIIT applies to the lesser of your net investment income, or the amount by which your modified adjusted gross income exceeds the statutory threshold amount based on filing status.
- The statutory threshold amounts are:
  - Married filing jointly \$250,000,
  - Married filing separately \$125,000,
  - Single or head of household \$200,000, or
- Qualifying widow(er) with a child \$250,000.

  In general, net investment income includes, but is not limited to: interest, dividends, capital gains, rental and royalty income, and non-qualified annuities.

#### 3.8% Net Investment Income Tax

- To arrive at net investment income, gross investment income is reduced by properly allocable deductions
  - Investment interest expense
  - Investment advisory and brokerage fees
  - Expenses related to rental and royalty income
  - State and local income taxes properly allocable to items included in NII

## Be proactive with your tax reporting...

TAKE ALL THE DEDUCTIONS YOU'RE ENTITLED TO ...

BUT ALSO MAKE SURE YOU CORRECTLY REPORT ALL YOUR INCOME...





## Consider...



- Harvest capital losses
- Secure a loss deduction for nearly worthless securities
  - You can deduct a loss on worthless securities only if you can prove the investment is completely worthless; is doesn't count if you still own the security and it has any value at all.
- Boost charitable contributions with a donor-advised fund

## Consider...

- Accelerate Deductions and Defer Income
  - "Bunch" deductions into the year you get a better benefit; alternate itemizing v. standard deductions
- Does making Roth IRA conversions still make sense? [For some taxpayers it does]
- In danger of an underpayment of estimated tax penalty? Look for withholding sources...

## **Questions?**



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