Teresa Campbell, CPA, PC

CERTIFIED PUBLIC ACCOUNTANT

-American Institute of CPAs

-Colorado Society of CPAs

Tax Season 2016 is here!

As our tax laws get more and more convoluted, we thought it may help our clients to get you access to some tax planning tips as we near the year end. Congress has finally gotten something done and extended tax breaks! The following are the topics we hit most often:

Section 179 and Bonus Depreciation: The biggest issue for most of our clients was whether the Section 179 maximum deduction would be $25,000 or $500,000 for 2015. The $500,000 has finally been made permanent. Bonus depreciation is 50% of new equipment and has been extended through 2017.

Educator expenses: Eligible elementary and secondary school teachers can claim an above-the-line deduction for up to $250 per year of expenses paid or incurred for books, certain supplies, computer and other equipment, and supplementary materials used in the classroom.

Extension of the American Opportunity Tax Credit of $2500 per year for tuition and related education expenses for four years of post-secondary education.

State and Local Sales Tax deduction made permanent.

There are several others that have been extended, please contact your accountant for any specific questions.

<u>The ACA changes are still causing headaches for many individuals and businesses alike</u>. Be sure to inform your accountant if you enrolled in a health plan through your employer, private insurance, Medicare or Medicaid, if you bought insurance off the Marketplace exchange, or if you don't have any health insurance.

If you **don't have health insurance** you may be subject to a **penalty**. If you encountered circumstances preventing you from obtaining minimum essential coverage, you may qualify for an exemption from the penalty.

New forms to expect: Form 1095-C from your employer and Form 1095-B from private insurers and self-funded plans that will summarize coverage. If you bought health insurance off the exchange then we will need Form 1095-A.

ACA for Businesses: The biggest change took effect July 1, 2015. If your business was reimbursing health insurance premiums for employees, the last day this could continue was June 30, 2015. If the S corporation has any other employees besides the owner, then the self-employed health insurance premiums should not be reimbursed by the company. The ACA imposes penalties on the S corporation if the S corporation offers a health plan that fails to comply with certain market reform provisions, which may include plans under which the S corporation reimburses the owners/employees. The potential excise tax is $100/day/employee/violation.

306 South Third Montrose, CO 81401 Phone (970) 249-7973 Fax (970) 249-7826
tcampbell@teresacampbellcpa.com

Teresa Campbell, CPA, PC

CERTIFIED PUBLIC ACCOUNTANT

-American Institute of CPAs

-Colorado Society of CPAs

In most cases we see the owner being reimbursed for health insurance premiums, but there is no group health insurance plan offered to the employees. According to ACA, they may be subject to the penalty or choose to pay their health insurance premiums personally and deduct them as a medical expense. This expense would be limited to 10% of their Adjusted Gross Income on Schedule A. This is a huge change to S corporation owners and will adversely affect their tax liability. The only exemption from this is for S corporations where their only employee is themselves (or their spouses). As long as the spouse is on the same plan as the owner, they are counted as one employee for health insurance purposes and can continue to deduct health insurance by adding it to box 1 on the W2 and deducting it on page 1 of the form 1040.

New Proposed Minimum Wage and Overtime Pay Requirements: The DOL is proposing to update the regulations governing which executive, administrative, and professional employees are entitled to the Fair Labor Standards Act's minimum wage and overtime pay protections. The net affect will be that previous exempt employees may need to be paid overtime or have their yearly salary adjusted. Please contact your accountant if you have any employees such as managers/exempt employees that work overtime and are not currently compensated at/or above $50,440/year.

Tax Planning for "Opps" Distributions from IRA's: If you have withdrawn funds from a traditional IRA in 2015, but no longer needed the funds, you can avoid being taxed and penalized 10% (if under 59 ½) on the distribution by making payments to the traditional IRA no later than the 60th day after the day you received the distribution.

Hardship rules for 401(k)s are medical expenses, funeral expenses, or tuition and related educational expenses.

The exceptions to the 60 day rules for IRA are: First time homebuyers can take up to $10,000 from IRAs without being subject to the 10% penalty, and eligible taxpayers can obtain a hardship waiver. Discuss any issues you had with your accountant to see if you fall under the hardship waiver.

Charitable distributions from an IRA if you are 70 and ½ or older: if you are planning to make a charitable donation in 2015, you now will be able to continue to make the donation (up to $100,000) directly from your IRA without having the distribution from the IRA added to adjusted gross income. The distribution can also count toward the required minimum distribution. Although you won't get a tax deduction for the contribution since it was never added to your income, it is still a better tax saving tool.

Starting 1/1/15, the IRS has ruled that each individual has the opportunity to make only one IRA rollover per year. If you have done more than one, make sure you let your accountant know.

Real estate changes: As of October 3, 2015, the HUD-1 settlement statement, good faith estimate will not be used for real estate closing documents. They will be replaced with closing disclosure document and loan estimate. Be sure to give your accountant a copy of these documents for any real estate sale during the 2015 year for tax preparation.

Farmers: If you operate a farm, watch out for passive rules. A taxpayer *materially* participates in an activity if he or she works on a regular, continuous and substantial basis and can deduct losses as ordinary losses. If a taxpayer does not materially participate, losses are passive, which means they are generally not deductible without passive income to offset it. Material participation is a year by year determination. Farms can sometimes be small side businesses that may need to take this into consideration.

Military Retirement "Net Disability Exclusion": Some military retirees are incorrectly applying the net disability exclusion to their pensions. The "net disability exclusion" only applies to service members who have been retired for medical disability (unfit for duty) not those who retired for eligibility by years of service. If you are concerned that you may not qualify for the net disability exclusion, please let your accountant know.

If you need to file an amended return: Once you file a joint return you cannot chose to file separate returns for that year after the due date of the return. You can track amended returns on IRS.gov.

Foreign Accounts: If you had any financial interest in or signature authority over at least one financial account located outside the United States and the aggregate value of all foreign financial accounts exceeded $10,000 **at any time** during the calendar year then a US person is required to file a FinCEN 114, Report of Foreign Bank and Financial Accounts.

Claiming Dependents: If you are providing over half the support for another person and they earn less than $3,900 a year (excluding social security) be sure to inform your accountant. You may be able to claim this person as a dependent.

Dangers of Inherited IRA: If an IRA owner dies and was in Required Minimum Distribution (RMD) status, the beneficiary must take the RMD in the year of death. Failure to do so runs the risk of a 50% penalty. If there is no designated beneficiary for the IRA and/or qualified plan, the 5 year rule applies. This means that the balance of the IRA has to be distributed within 5 years instead of over the life of the beneficiary. If you have an inherited IRA, make sure to contact your accountant and the IRA administrator on the options that you may have. As the end of the year approaches, it is a good time to check your beneficiaries.

Estate Planning: Even if you don't have over $5 million in assets, always consider filing form 706 when a spouse dies to transfer the amount of unused exclusion to the surviving spouse.

1099 Tips/Issues: Make sure you watch who you are paying as contract labor. Employee versus independent contractor is a hot topic with the IRS right now. Make sure you look at behavioral control, financial control, and relationship of the parties. Behavioral controls includes instructing them on when and where to do the work, what tools or equipment to use, what workers to hire or assist with the work, where to purchase supplies, what work must be performed by and what order to follow. If someone has their own business, business cards, and has control over the when, where and what, usually this can be classified as contract labor, but not always. Please call your accountant to

Teresa Campbell, CPA, PC

CERTIFIED PUBLIC ACCOUNTANT
-American Institute of CPAs
-Colorado Society of CPAs

verify if someone needs to be treated as an employee.

Increased Penalties for Late Forms:
The IRS has increased the penalties for late or missed 1099s.
**For W2/1099/1098 Forms:
Non filed = $250/form
Corrections/late by March 2 = $50/form
Corrections/late by Aug 1 = $100/form

Make sure that you file your 1099s on time. This year the deadline is February 29th, 2016. If you need a W-9 form, you can find it on the IRS website, or try to "Google Form W-9". Verify addresses for W2s and W-9s for changes.

The State Unemployment rate forms that businesses receive in November need to be sent to your accountant for proper updating of 2016 unemployment charges.

Tax Preparation Tips:
For Individuals: In order to make your tax preparation as efficient as possible, be sure include all tax forms, if applicable, all W2s, 1099s, 1098s, K-1s, rental information, medical expenses, contributions, and any other income and expense information we may need.

People often forget their vehicle registrations and **signed engagement letters.** We are required to have the signed engagement letter before we can **begin** working on the tax return.

For Corporate and Partnership returns, please make sure you bring us your year-end bank statements to verify your bank balance. As well as all year end statements for any loans that you have on the books.

Due Date Change Coming:
Starting in the 2016 tax filing season, all partnership returns will be due 3/15/17 instead of 4/15/17.

2016 Standard Mileage Rates:
-54 cents per mile for business miles
-19 cents per mile for medical or moving
-14 cents per mile driven in service of charitable organizations

Between the ACA requirements and legislation changes for 2015, the tax preparation process has become quite complex even for the average taxpayer. Due to these requirements, this has also created more time in tax preparation which could mean higher fees for the 2015 tax season, so we wanted to make you aware. The cleaner the records and organizer, the faster we can prepare your return and the lower your tax bill will be.

306 South Third Montrose, CO 81401 Phone (970) 249-7973 Fax (970) 249-7826
tcampbell@teresacampbellcpa.com