

33rd Annual Tax Letter | January 2016

Individual Tax Provisions

Congress was certainly full of surprises this year, passing a sweeping Tax Extender Bill just before Christmas (12/18). This bill, which was immediately signed by the President, not only extended provisions through 2015, but made many permanent! (Well, as permanent as the tax code can be ☺)



Education

The American Opportunity Credit, which provides up to \$2,500 per year in tax credits for the first four years of higher education expenses, has now been made permanent. The credit is still subject to income level phase outs:

MFJ \$160,000 - \$180,000
Single \$80,000 - \$90,000

It is important that we receive form 1098-T from the college, so if that is being sent to your son or daughter, please obtain it for your tax filing.

Qualified expenses include tuition and fees, course-related books, supplies and equipment, student activity and athletic fees.

Tax Tip: The credit can be claimed even if monies are borrowed to pay the tuition/expenses.

Educator Expenses

The \$250 above-the-line deduction for unreimbursed out-of-pocket classroom expenses of teachers (K-12), counselors, principals or aides has not only been made permanent, but will also be indexed for inflation in the future.

State and Local General Sales Tax Deduction

Tax Tip: This provision is most helpful for retirees.

In lieu of claiming a deduction for state and local income taxes, taxpayers may choose to claim a deduction for general sales tax. This benefit has been made permanent.

Charitable Contributions of IRA Distributions

*Another tax provision targeting retirees

IRA Distributions made directly to qualified charities are excluded from taxable income if the IRA owner is at least 70 ½.

While this does not provide a double benefit (i.e. exclusion from income and tax deduction), it is most useful to those who do not itemize or still pay state income taxes. Once again, this is a permanent tax change!

Important Facts and Figures

	<u>2015</u>	<u>2016</u>
Standard Mileage Rate	.575	.54
Social Security Wage Base	\$118,500	\$118,500
Earnings Limit for		
SS recipients under age 66	\$15,720	\$15,720
Tax Free Gift Per Person	\$14,000	\$14,000
Tax Free Estate:		
Individual	\$5,430,000	\$5,450,000
Married Couple	\$10,860,000	\$10,900,000
IRA Under 50	\$5,500	\$5,500
50 or older	\$6,500	\$6,500
SIMPLE Under 50	\$12,500	\$12,500
50 or older	\$15,500	\$15,500
401k Under 50	\$18,000	\$18,000
50 or older	\$24,000	\$24,000
HSA Individual	\$3,350	\$3,350
55 or older	\$4,350	\$4,350
HSA Family	\$6,650	\$6,750
55 or older	\$7,650	\$7,750

Affordable Care Act Update

What is considered basic health care coverage?

There are four different ways to meet the requirement: employer sponsored health insurance program, employer self-insured plan, health insurance through the Marketplace/Exchange, or government sponsored health insurance plans such as Medicare, Medicaid, CHIPS, and veteran's benefits.

What is the penalty for not having health insurance?

For the 2015 tax year, the penalty is \$325 per adult and \$162.50 per child under the age of 18. The penalty is capped at \$975 per family or 2% of your household income over the applicable filing threshold, whichever is greater. If the income threshold applies, the cap is \$2,484 per individual for the year. Keep in mind the penalties will increase in 2016 to \$695 per adult and \$347.50 per child. The family ceiling goes up to \$2,085. The income threshold increases to 2.5%.

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Business Tax Provisions

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At what point does a business have to offer health insurance?

For 2016 an employer with more than 50 FTE will have to offer affordable health insurance to at least 95% of the full-time employees or face penalties. The FTE calculation is based on the average count of employees during 2015. Seasonal employees and greater than 2% shareholders are excluded. If you believe you are close, then you should contact us to help with the computations.

What about the anti-discrimination rules?

Last year we told you about rules in place concerning discriminatory insurance plans. The IRS has yet to issue guidelines on what a discriminatory plan is. Until further notice that is on hold.



Is my employer required to provide me with proof of my health insurance coverage?

Yes, employers or their insurance company are required to mail their employees a 1095-B, 1095-A, or 1095-C form by March 31, 2016. These are information returns on health insurance coverage.

There are many different aspects of the Affordable Care Act. For more information about how these rules may impact your 2015 tax return, please give us a call.

1202 Stock

This is a tax provision that has had little use due to its annual "sunset" and late action by Congress to extend. But no more! Congress has made the IRC 1202 permanent. And here's the big attraction:



Investors/owners of qualified small business stock ("QSBS") issued after 9/28/10 may exclude 100% of their gains from the sale of the stock up to \$10 million per shareholders or 10 times one's basis.

The business must be operated as a C Corporation and immediately before and after the stock issuance must have gross assets less than \$50 million (can later exceed). Certain businesses do not qualify, such as professional service organizations, hotels and restaurants, banking and farming.

Operating as a C Corporation may also become much more attractive if Speaker of the House, Paul Ryan has his way. Speaker Ryan (formally head of Ways and Means) has set a top priority for 2016 - Corporate Tax Reform - which would include, according to him, bracket expansion/lowering. President Obama has also called for corporate tax reform. Given a large scale overhaul in the tax brackets (which haven't changed for decades!), corporations needing to retain profits for expansion or debt liquidation might realize significant annual tax reductions. Stay tuned: We will keep you abreast of developments in this most important area.

Bonus Depreciation / 179 Write-Offs / Qualified Real Estate Write-Offs Oh My!

We got more than we had even wished for here!

Expensing / 179 Deductions

No longer do we need to wait each year to find out how much we can claim for immediate write-off on equipment purchased during the year... Congress has set the limit at \$500,000; made it permanent, and allowed it to be adjusted annually for inflation! Section 179 Depreciation is limited annually to a net business income limitation.

Bonus Depreciation

While Congress did not choose to make bonus depreciation permanent like they did for 179 expensing, they did extend bonus depreciation through 2019.

Unlike Expensing under code section 179, bonus depreciation may be claimed even if assets purchased exceed \$2 million and it is not subject to a net income limitation. However, qualifying assets must be new as opposed to 179, which allows used asset deductions.

Qualified Leasehold Improvement Property / Qualified Restaurant Property / Qualified Retail Improvement Property

While business real estate (other than land) is generally written off over 39 years, property qualifying in this area may be written off over 15 years. This short depreciation period was made permanent! And that's not all...

You can even write-off, under the 179 rules, qualifying expenditures up to \$250,000 in 2015. In 2016 this amount moves to \$500,000 and even includes air conditioning and heating units AND is made permanent in the tax code! And saving the biggest real estate provision for last:

For tax years 2016-2019, real estate improvement expenditures made to a building's interior (not for enlargements, elevators or escalators or the structural framework of the building) are allowable for bonus depreciation irrespective of any lease arrangement or 3-year placed-in-service rule.

Highway Act?!?!?

So what does a highway bill have to do with taxes, you say... Well, the Surface Transportation and Veterans Health Care Choice Improvement Act of 2015 changed some business tax filing due dates. For 2016 returns to be filed in 2017:

C-Corporations: Old 3/15, New 4/15

S-Corporations: Old 3/15, New 3/15 (no change)

Partnerships: Old 4/15, New 3/15

Gambling Expenses

The IRS has implemented a new procedure which allows players on electronically-tracked slot machines to net losses against gains. The important change is that taxpayers can deduct losses on page 1 of their 1040, instead of being subject to the 2% limitation on their Schedule A.



There are two key requirements: The gains and losses must occur within the same play session (12:00 AM to 11:59 PM, occurring within the same establishment). You must also keep record of your wagers, which is easily done if using a player's card, as the casino can provide a printout showing the amount of money wagered and paid out for a specified period.



Minimum Wage - Michigan

Effective January 1, 2016, the minimum wage in Michigan increased from \$8.15 to \$8.50. It is scheduled to increase again on 1/1/17 to \$8.90 and then to \$9.25 on 1/1/18. Newly-employed teens between 16 and 19 can be paid \$4.25/hour for the first 90 days of employment.

Tipped employee minimum wage changed from \$3.10 to \$3.23 on 1/1/16. Tipped employees must make \$8.50/hour with tips and regular wages taken into account.