Tax Tips LAST MINUTE TAX STRATEGIES & DEDUCTIONS FOR 2015 -- UPDATED FOR PATH ACT OF 2015 (*JUST PASSED....)*

Issue 17 -- UPDATED for "Protecting Americans From Tax Hikes (PATH) Act of 2015", December 27th, 2015, by Milan Madhani, CPA & Vimal Madhani, MST, EA

After a long absence of our famous "Tax Tips" Issues, we are now back, delivering quality and time-sensitive tax strategies, tax law updates, and information which pertain to you and your family.

Once again a new year is behind us and tax filing season will be upon us for US tax returns. In this upcoming tax season of 2016, all Americans will be seeing changes on for their 2015 tax returns. Congress continues to discuss last minute income tax bills as of the date of this letter, and you can be assured we stay abreast of all the latest changes as they occur.

We are once again making our tax organizers (questionnaires) available, for free, to anyone who requests one. If you have not used one in the past, please call the office to request one for 2015, as it is our attempt to be as thorough as possible in the preparation of your return. We will be making it available on our website as well soon enough. If you received an organizer last year we will be emailing it this year as well. The tax organizer may not be enough however, and we wanted to bring some special items to your attention below. But if you want a quick "checklist" of some items to think about before the year is over, and perhaps discuss with your CPA or tax advisor, please have a look at this beautiful checklist. It was put together by our sister company's (Sentigent Financial Solutions, LLC.) broker dealer, HD Vest and if you know us by now, we love checklists. It has some nice things which may help to reduce your tax bill and start you off on the right foot for 2016 as far as financial planning is concerned.

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UPDATE: To see the two page summary of the permanent and temporary provisions just passed on the 16th of December, 2015, see this link provided by the US House & Ways Means Committee, here. A section by section summary is here. Otherwise, this enewsletter will go through just a few of them in some detail as a last minute strategy to lower your tax bill in the next few days, for 2015. We have updated them, in each of the sections below, under the italicized "UPDATE" subheadings.

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Affordable Care Act

All Americans will be affected in some manner by the Affordable Care Act from 2010 (Some people call it Obamacare). 5 new tax forms were released by the IRS as a result of this act for 2014. If you received a Form 1095 from any issuer or agency we MUST have all copies to prepare your tax return. If you did not receive a 1095 we must ask you a number of additional questions about insurance coverage so that we can help you avoid any penalties for failure to have health insurance. The new 5 forms will add between $150-250 to this year's tax preparation bill, courtesy of the Affordable Care Act and the estimated 1-3 hours of additional time on our part to get things right. Additionally, there are some important dates for 2016 health insurance that you should be aware of. November 1st was the start of Open Enrollment for enrolling in a 2016 insurance plan through the Health Insurance Marketplace. December 15th, 2015 was the last day to change your plans for new coverage starting next year, however, the government has extended the deadline 48 more hours, until 11:59 pm pacific time (2:59 am, Friday), December 18th for those customers using HealthCare.gov. If you miss the deadline, you can STILL sign up for health insurance, as open enrollment ends on January 31st for coverage starting February 1st. The penalty for not having health insurance for more than 3 months in 2015 is the greater of $325 per person, or 2% of household income for each month beyond the three month penalty free coverage gap allowed. That penalty jumps to $695 per person, or 2.5% of household income in 2016. Illinois's marketplace site is https://getcovered.illinois.gov/en. while the federal government's site is https://www.healthcare.gov/. Illinois's website has some nice answers to frequently asked questions here: https://getcovered.illinois.gov/en/get-answers/faqs-resources. If this is all Greek to you, we suggest you use a Navigator, who is a trained specialist to help answer your questions for free and find coverage for you and your family. You can always call us to provide you a referral to a Navigator.

Health Care Deductions

US Congress's 2013's tax bill reduced your deduction for medical costs, including the health insurance, for 2015. We will see very few deductions available for medical costs now unless you have substantial bills. The amount of your medical expenses (i.e., what your health insurance company has NOT paid) in most cases must now be more than 10% of your income before we can deduct a single dollar, so please weigh carefully whether to go to the trouble of summarizing these costs. If you are self-employed we still need to know how much you paid for health insurance.

HSA (Health Savings Accounts)

Furthermore, if you had a health insurance plan already in affect as of December 1st this year, you might be able to contribute to a health savings account at a bank of your choosing. If you have an HSA already, you will know that any amounts contributed into this account during 2015, up to this coming April 15th, 2016, can be utilized as a tax deduction on your 2015 tax return. The amounts distributed from this account is tax free if used for qualified medical purposes. You would get a 1099-SA and a 5498-SA which reports your distributions and contributions by early this year for 2015. So please remember to bring that.

If your existing 2015 health insurance plan is not "HSA Compatible," then you might consider purchasing a HSA Compatible health insurance policy during open enrollment for 2016. To be HSA compatible, your health insurance plan must have a deductible of either $1,300 for a single personal policy, or $2,600 for a family deductible. The out of pocket maximum (deductible and co insurance) which you spend for medical expenses in 2015 must be capped at $6,450 (for an individual) and $12,900 for a family policy. Here is a nice site for you to pick out the details: http://www.hsacenter.com/2015-hsa-contribution-limits.html. But be sure to check with your health insurance company first before doing anything. Then inquire with your bank to open up that HSA.

Remember, we are only talking about HSAs, which are accounts set up by you outside of your employer's benefits which you would opt for at the time your employer requires you to enroll for those benefits (FSA or HRA), and which would make sense for you for 2016. But the HSA can still help for 2015, as well as be a good tax reduction tool for 2016, as your taxable pay listed on your W2s for 2016, would ostensibly be lower.

Charity

Charity deductions of any amount must have a receipt. Any individual contribution over $250 must also have an acknowledgement letter from the charity, and the letter must be dated by the date we file your return.

The letter should show the date and amount of any individual contribution over $250, and should also state that "no goods or services were received in return for the contribution." So making those year end deductions now, will surely help reduce your tax bill. Whether they are books you are donating to your local library, old clothing, or monies to your place of worship, be sure to either get a receipt/letter as stated above, or keep a copy of the check if it's a money donation.

UPDATE -- Money or property transfers/donations to 501(c)(4) (tax exempt social welfare) organizations, 501(c)(5) (tax exempt agricultural or horticultural) organizations, & 501(c)(6) (tax exempt business leagues, chambers of commerce, real estate boards, boards of trade, and professional football leagues) organizations are no longer taxable gifts. Consequently, money transfers to these types of organizations are NOT tax deductible since they are not 501(c)(3) organizations like the ones picture in the graphic above. To qualify as a charitable deduction, an organization must be a US based charity with a tax exempt status from the IRS under Internal Code Section 501(c)(3).

401K/ 403B/457 Work Retirement Account

You might want to go ahead and make that last payroll deduction for your retirement account to reduce your taxable pay for 2015. Check with your HR person or with your payroll provider if you can do this asap. We only have two weeks or so left in the year to do this.

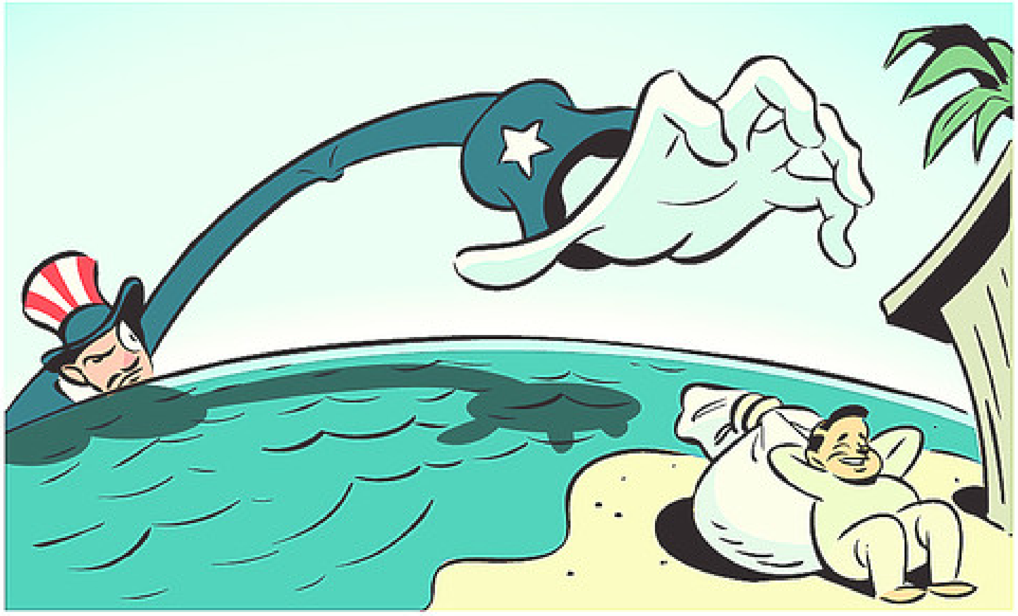
UPDATE -- See the update for the rollover to a SIMPLE IRA, below in the ROTH IRA conversion section.

Tax Loss Harvesting

How about selling those loser stocks and mutual funds in your portfolio against any possible capital gains you might have? If those losers are never really going to come up, you can deduct them against your gains and capital gain distributions from your taxable brokerage accounts. If you do want to buy them later on, just make sure you buy them at least 30 days after you sell them, else the IRS won't let you take the loss against your gains. This is called the Wash Sale Rule. Remember, this is to be done in your taxable investment accounts, not your IRA, 401K, or tax deferred accounts.

Foreign Accounts

If you have read any news in the last year you know that the IRS is looking closely for offshore accounts. If you have an account, retirement account, or business interest with a value over $10,000 in a foreign country, or a foreign business ownership (not through a mutual fund) please let us know as some special rules will apply to you. There are substantial penalties for failure to disclose these items. Our office handles countless foreign bank account report filings ("FBARs") and 8938 filings. Even if you may not meet the threshhold for reporting those accounts, the very fact you have them has to be disclosed to the IRS, on Schedule B.



Mortgage Interest

We must obtain Form 1098 from you when you pay mortgage interest. Additionally we must obtain refinancing closing statements, and if you drew money out on a home mortgage or refinancing we must have general information on the use of the money according to the IRS. Remember, you can ONLY TAKE THE INTEREST DEDUCTION FOR THE AMOUNT OF THE LOAN USED TO PURCHASE YOUR HOUSE! This means, if you bought your house with a smaller loan, but then refinanced to cash out, the interest on the cash out portion is NOT DEDUCTIBLE!   Interest on home equity lines of credit and home equity loans up to $100,000 is still deductible. Mortgage Insurance Premiums ("PMI" or "MIP" is so far, NOT deductible this year as of the writing of this enewsletter and) is NOT deductible due to our do-nothing US Congress which decided not to approve this tax provision.

UPDATE -- Mortgage insurance premium continues to qualify as mortgage interest, i.e., it is deductible. It has been extended as a deductible and itemizable expense until December 31st, 2016. You might consider making that extra mortgage payment (for December's bill), by December 31st, by doing it electronicaly, or walking it to the bank which holds your mortgage. Even if the year-ending tax statement the mortgage company normally mails you in January (the 1098) does not reflect this extra interest for December, you can still deduct this extra payment. You just have to make sure that this payment you make in the next few days does not go towards principal.

PROPERTY TAXES -- This is not an update of the Path Act of 2015, but just an idea. Even if your property taxes might be due in the upcoming months of March or April, consider making that payment now, to either your city, county, or even towards your escrow account. Check with your mortgage company if they will accept and hold on to this escrow payment and if your city or county will take the property tax payment early. This will be deductible on your 2015 tax return if you itemize, and your state tax return, if property taxes is a deduction.

UPDATE -- The exclusion from gross income for any debt cancelled from the mortgage of your personal residence home which goes into foreclosure or a short sale, is now extended to December 31st, 2016. This is not a planning point, per se, but if you were rushing to sign the docs for your short sale before the end of the year, you do not have to worry. You can take care of it next year, and no taxable income will result from the short sale or foreclosure, so long as you lived in the home for two out of the last five calendar years (thereby construing it a "personal residence"). If it is NOT your personal residence, then any unpaid mortgage balance, can result in something known as cancellation of debt income (COD), and thus reportable as part of your taxable income. We almost always advise coming to see us or talking to your tax adviser before you decide on doing a short sale of an investment property you own, or letting that investment property go into foreclosure.

Student Loan Interest (1098-E)

Many student loan financing companies (banks included) will not mail you those 1098E statements which show how much interest you would have paid in the year. You will just have to remember to download them and bring them in. The tax deductions for student loan interest is only available to those tax filers whose income is below $80,000 (single filers) and $160,000 (joint filers). The max deduction is $2,500. So you might consider refinancing that student loan interest with a home equity loan or line of credit, if your income is above those levels for your filing status.

State and Local Taxes

It would not hurt for you to go ahead and prepay some of your 2015 state taxes ahead of time, over and above what's withheld by your employer through your payroll. If you are an itemizer (mortgage interest, property taxes, charity are itemizable expenses) where your itemizable expenses are more than the standard deduction for your filing status, then state and local taxes can help to reduce your income tax bill. If it does not, then you would just get that back as a credit towards your state tax bill during filing time anyways. You can use our sister company's tax calculator here to estimate your 2015 tax bill. http://sentigentfinancial.com/tax-1040-calculator/

UPDATE -- Sales tax, if larger than the state and tax withheld on your paychecks or paid by you during the year, can be deducted as an itemizable expense. This provision is now permanent. Thus if you bought an expensive personal car, say, a large SUV, whose sales taxes are more than your state income taxes you paid during the year, you can take that as a deduction on your Schedule A of your 2015 tax return.

529 Plan Deductions

How about making those contributions into your or your child's 529 education plan? If you aren't lucky enough to live in a tax free state like Texas, Tennessee, or the other seven states with little or no income tax, then chances are, your state might provide you a tax deduction for contributions into your state-sponsored 529 plan. So if you got a 529, consider contributing to it before the end of the year, and if you do not have one, do consider setting up one pronto if you want the tax deduction. In Illinois, the tax benefit is 3.75% of the amount contributed, up to $20,000. That means if you put $20,000 into the 529, the state of IL will provide you a $750 reduction in your tax bill ($20,000 x 3.75%).

Required Minimum Distribution (RMD)

If you're over 70 1/2 and have either an employer-sponsored plan (pension, profit sharing plan, 457(b), 401(k)) or an Traditional IRA, you would be required to take your RMD by April 1st of the year following the year in which you turn 70 1/2. Subsequent RMDs must be taken by December 31st each year. For you first time distributees, you might end up taking two distributions if you opt for the first-time ever distribution on April 1st (one for the year after you turn 70 1/2 and one for the current year). Your income tax might be higher as a result. Therefore, it might help to take the RMD earlier. Schwab has a nice piece on RMDs here, and you can use either their calculator or FINRA's calculator here to figure your RMD. There are some costly penalties by the IRS for not taking your timely RMDs, so please contact your broker or financial advisor to know more. Our sister company, Sentigent Financial Solutions, LLC., might also be able to help with this.

UPDATE -- The PATH Act of 2015 has now made permanent, the ability to take that RMD, which you may have to take by December 31st, and transfer it directly to a US based charity (i.e., a qualified charitable organization), in lieu of you taking that RMD. So if you were planning to make a donation to a US based charity anyways, consider using your RMD instead.

Take that Trip or Go to those Conferences, OR, Make Those Job Expenditures

Under the IRS rule of "necessary and ordinary expenses," you might be able to deduct the cost of any trip, conference, or job-specific training expense related to your work. This could include that MBA class, if the MBA enhances your existing skillset and does not qualify you for a new type of job position/title. This could also mean, extra book purchases, laptops, cell phones, etc, if they are primarily used for work. But don't get carried away. These expenses have to be MORE than 2% of your combined income (you and your spouse), before any dollar over the 2% threshold of your income can be deducted.

UPDATE -- The tuition deduction has been extended to December 31st, 2016. So if your income is within limits to take that deduction, go ahead and pay for the upcoming spring or summer class now, so you can take that tuition deduciton on the front page of the tax return. Even if your income level may not allow you to take this deduction as a tuition deduciton, you may be able to count it as a work expense as an itemized expense on your tax return, as stated above, and subject to the provisions above, normally.

UPDATE -- The $250 teacher supplies deduction is now made permanent, and beginning in 2016, the provision also indexes the $250 cap to inflation and includes professional development expenses. So if you are an educator, consider making the expense for the upcoming year now, if you haven't already done so for the 2015 year.

UPDATE -- Bonus depreciation applies at 50% through 2017 and is reduced therafter, until December 31st, 2019, when it expires. Section 179 depreciation for expensing is now made permanent, for equipment up to $2,000,0000, up to the depreciation amount of $500,000. Software can now be "179ed" permanently as can heating/air conditioning equipment placed in service after 2015. What does this mean? It means if you are thinking of buying any equipment, even a car in the next few days to get that deduction (except heating or air conditioning units), for your business, now is the time to do it. If your car has a "curb weight" of over 6,000 lbs, you can potentially write off the whole purchase price of the car off against your inome, if it's a NEW car.

UPDATE -- See below, under the rental property section for more the Section 179 update on qualified retail, restaurant, and leashold improvement property.

Children/Student Tax Returns

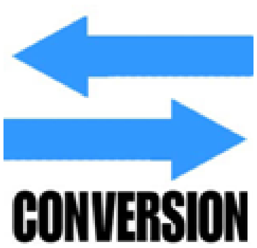
Under absolutely no circumstances can you allow your dependent children or college students to file their own returns this year. We must file their return because of the Affordable Care Act. Allowing a child to file their own return, particularly a student, can cost the child and parent literally thousands of dollars in Health Care penalties and/or credits, not to mention tuition credits or deductions if the child's bracket is already quite low.

UPDATE -- The Enhanced American Opportunity tax credit is now made permanent. It replaced the HOPE credit some time back, but is basically for undergraduates in college during their first four years of studies. Beginning in 2016, the provision requires the taxpayer claiming the American Opportunity credit to report the EIN of the educational institution to which the individual made tuition payments. Consider making that tuition payment ahead of time for the upcoming spring semester, for your undergraduate child, if you have not been billed already. Even if your income level is too high to claim this credit, consider making the payment anyways, as the tuition deduction has also been extended to December 31st, 2016 (see the previous section under "Take that trip..."). Computer and technology costs now qualify as college education expenses.

Rental Property

If you own rental property, this year the IRS has demanded substantially more information. We now need, FOR EACH PROPERTY SEPARATELY, the physical location, the type of property (single-family, duplex, etc), and Forms 1099-K received, and a record, by property of the number of days rented and the number of days used for personal purposes. Our questionnaire does take care of most of this, so look for another email with the tax questionnaire for 2015.

UPDATE -- The IRS has removed the cap on on 179 expensing for qualified retail, restaurant, and leasehold improvement property. The previous cap was $250,000. So consider making that extra expense if you are an owner of a retail establishment, a restaurant, or a tenant with a long term lease.



Roth IRA Conversions

You will be continue to hear from lots of “experts” this year that you need to convert your retirement accounts to Roth IRAs. While there are a number of advantages to conversions, there are an equal number of disadvantages that carry some major tax consequences. Please do not convert your accounts in 2015 without coming in to see us for an appointment to discuss both the positives and negatives. All conversions for 2015 must be completed by December 31, 2015. Our sister company, Sentigent Financial Solutions, LLC, has a enewsletter in circulation for Advanced Roth Strategies, so be sure to look out for that soon enough.

UPDATE -- The PATH Act of 2015 allows work retirement plans (e.g., 401(k)) to be rolled over into a SIMPLE IRA plan, so long as the work retirement plan has been in existence for at least two years. This is now made permanent. So consider rolling over your work retirement plan monies, into your SIMPLE IRA, or any IRA, and possibly then converting portions of it into a ROTH IRA, assuming it makes sense from an income tax perspective. The rollovers are tax free, but the conversions are taxable.

Gift Changes

Effective 1/1/2013 the amount you may give to one person in one year without any return filing requirements was increased to $14,000. Very, very few Americans need to worry about Federal estate taxes because of changes in the estate tax limit at the Federal level. But it is not a bad idea to meet with your financial advisor to start discussing getting assets out of your estate with effective gifting strategies, if indeed you believe your net worth might more than $5M right now. Our sister company, Sentigent Financial Solutions, LLC. has the knowledge to help you with proper legacy planning, so please be sure to let us know you need help in this area.

Surtaxes

If you are in what the press has called the 2% club, be aware that the rest of America will soon be joining you! When the surtaxes on this group of Americans were passed the President purposefully did not adjust the thresholds for inflation, and in 6 years over 50% of all Americans will pay these surtaxes based on estimated inflation rates. Begin planning now whether you are a 2% club member or not by, in order, maximizing 401-k contributions; utilizing employer-sponsored cafeteria plans to their fullest limit; investigating and using employer sponsored fringe benefits such as child care and education; turn in job expenses for reimbursement; and consider your marital status as your income increases because of the incredible marital penalty built in to the surtaxes.

Tax Planning

There is still time to setup an appointment for year-end tax planning by December 31. We recommend a meeting if you have had any major changes during 2015 or are expecting major financial changes in 2016 or 2017 such as retirement, inheritances, etc.

Future Income Tax Rates & Other

As of today Congress once again has failed to pass an extender bill. As a result many of your deductions and credits have been tentatively reduced. If Congress does get around to extending things be assured that we will be aware of it and prepare your return using the latest information.

We highly recommend that when you are getting your information to us for your 2015 Federal tax return that you set an appointment for an after tax season "Tax Tune Up" to examine tax and estate planning strategies. If your income is over $200,000 it is almost mandatory that we meet for future tax planning because of surtaxes.

If you receive any Form 1099-k please be sure to bring it to us, it may have a direct impact on your return.

There are literally hundreds of other changes, extensions and deletions that we will consider this year while preparing your return. Because of these changes we are requesting everyone to try to have their tax information in to us at least two weeks earlier than normal, and no later than March 21, 2016. Please rest assured that we will utilize our best resources to once again provide you with timely, complete and accurate service while keeping your tax burden to the lowest legal amount.

Thank you again for your continued support.

Sincerely,

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