TaxTips

Keeping You Informed ▪ Winter 2015–2016

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Your Tax Appointment

How to come prepared

Your tax appointment—it comes around every year and it's always a good idea to start preparing for it early. In preparation, you should contact me soon to reserve a time for your appointment. Be sure to choose a time when you expect to have all of the documents you need for your appointment. If you're not sure what you need to bring, give me a call and I'll help guide you. For now, here are a few things you'll want to bring along, if they're applicable to your unique circumstances:

- **W-2 forms** from all employers that you had throughout the year. Employers will issue W-2 forms by January 31. If you discover that a form is missing, contact the employer.
- **1099 forms** reporting income from interest, dividends, pensions, self-employment, government payments or the sale of property.
- **A list of other income** that you've received during the year, even if you don't have specific statements.
- **Schedule K-1**, if you were a member of a partnership, a stockholder in a S corporation or a beneficiary of a trust or an estate.
- **Stock sale information** about the sale and original cost of stock.
- **Real estate sale information** showing the cost, sales prices and expenses of the sale.
- **Records of all income** received if you're a business owner or farmer. Be sure to include expense records for inventory, supplies, business equipment and other business expenses. Payroll records may also be necessary.
- **Child care information**, including the name, address and ID number of the provider(s), as well as the amount of the expense.
- **Moving expense records** for unreimbursed job-related moves of more than 50 miles.
- **Medical expense records**, including those for prescription drugs, doctor, dental, hospital bills, medical insurance premiums and the mileage to and from the doctor's office. These expenses are deductible if they exceed 10% of your adjusted gross income (7.5% for ages 65 and older until December 31, 2016).
- **Health Insurance forms**. If you participate in the Health Insurance Marketplace, be sure to bring along Form 1095-A, which you'll receive in the mail.
- **Charitable contribution receipts**. All contributions of any amount require a receipt. Single contributions of $250 or more require a detailed statement from the charitable organization prior to the filing of your taxes.

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- **Deductible expense records** incurred as an employee, including union dues and tax preparation fees.
- **Property tax bills and mortgage interest statements.** You may be able to itemize deductions if you own a home. The interest on home equity loans and a vacation home may also be deductible.

If relevant to your circumstances, you may also need to bring in social security numbers for all dependents, Form 8332 (if you are a noncustodial parent), last year's tax return and any postcards or tax booklets received from the IRS. If you have any questions about whether you have all of the documents and information you need for our appointment, feel free to give me a call. I'll be glad to help.

HSAs at Age 65

Tips on using your funds

An HSA works like a savings account into which you deposit money on a tax-deductible basis for medical expenses. HSAs enable you to pay for current health expenses and save for future qualified medical and retiree health expenses on a tax-free basis. Once you reach 65, you can start using your HSA funds to pay for Medicare and other health care coverage.

At this time, you can continue to take tax-free distributions from your HSA for qualified medical expenses.

Nonqualified distributions will be taxable, but not subject to the 20% penalty. Once you enroll in Medicare, you can receive distributions to pay Medicare premiums, deductibles, co-pays and coinsurance under any part of Medicare, but you are no longer eligible to make contributions to your HSA.

If you have retiree health benefits through your former employer, you can also use your account to pay for your share of retiree medical insurance premiums. However, you cannot use your account to purchase Medicare supplemental insurance, such as a Medigap policy.

This topic can get tricky, so if you have any concerns, please give me a call so I can answer your questions.

Converting a Traditional IRA to a ROTH IRA

Special rules for rollovers

If Roth IRAs are held long enough, the distributions are tax-free, meaning you may never have to pay tax on the earnings. This factor alone makes many taxpayers consider rolling their traditional IRA contributions over to a Roth IRA. While you certainly can do this, it's important to note that the rules for rollover contributions differ from the rules for making regular contributions to a Roth account. Following are a few guidelines.

Who can make rollover contributions? Anyone, no matter the filing status or modified adjusted gross income (MAGI), is eligible to roll over a traditional IRA and certain employer accounts to a Roth IRA.

How much can you roll over? There is no limit. The rollover can come from one or more accounts and contain both deductible and nondeductible contributions.

When can you make a rollover? There is no "grace period" in which to make a rollover. Unlike Roth IRA contributions that can be made until the due date of the return, a rollover cannot be made retroactively. Therefore, the amounts rolled from a traditional IRA to a Roth IRA during the tax year are accounted for on the tax return for that tax year.

How are contributions taxed? Deductible contributions from a traditional IRA that are rolled into a Roth IRA are generally taxed in the same year the rollover occurs. The nondeductible amounts are rolled over into a Roth IRA tax free.

There are plenty of other special rules that apply to rollovers to a Roth IRA, so if you're looking to take this action, please contact me for more information.

Investing in Rental Property

Things to know about income and deductions

Investing in rental property can be a smart financial move, but when it comes to your federal tax responsibilities, it's important to be aware of what is considered rental income and the associated expenses that can be deducted from your rental income.

What's considered rental income? Anything received as rent must be reported as part of your gross income for the year you received the payments. Besides rent payments received from tenants, other rental income includes advance rent, security deposits, payment for breaking a lease, expenses paid by a tenant, property or services received as rent and payments received under a lease with an option to buy agreement.

What are your eligible deductions? You may deduct mortgage interest, property tax, operating expenses, depreciation and repairs. However, you cannot deduct the cost of improvements (i.e., anything that adds to the value of your property).

What records should you keep? Keeping good records of rent, rental repairs and travel expenses incurred for rental property is essential to tracking deductions, preparing tax returns and supporting items reported on the returns. It's also important to keep documentary evidence, such as receipts, canceled checks or bills to help substantiate certain elements of expenses so you can deduct them.

Applying for Social Security Benefits at Age 62

Thinking about retiring?

Early retirement is an option for many taxpayers.However, before making the decision, you need to be aware of a few facts.

It's important to understand that the more years of work you put in after the age of 62 (the earliest possible social security retirement age), the more social security benefits you'll have to look forward to. Retiring at the age of 62 means that your benefits will be about 25 percent lower than they would be if you waited until you reached full retirement age.

If you still decide to go ahead with retirement at the age of 62, be sure to apply for your benefits about three months before the date you'd like them to start. You'll apply online at www.ssa.gov, by phone at 1.800.325.0778 or in person at your local social security office. During the application process, you'll need some or all of the documents below:

- Your social security number.
- Your birth certificate.
- Your W-2 forms or self-employment tax return from last year.
- Your military discharge papers, if applicable.
- Your spouse's birth certificate and social security number if he or she is applying for benefits.
- Your children's birth certificates and social security numbers if you're applying for children's benefits.
- Proof of U.S. citizenship or lawful alien status if you (or a spouse or child applying for benefits) were not born here.
- The name of your financial institution, the routing number and your account number so that benefits can be deposited directly into your account.

Note: All documents must be original documents or copies certified by the issuing office. You can mail or bring these documents to your local social security office.

Because your age of retirement ultimately impacts the amount of social security benefits that you can expect to receive, it's absolutely crucial for you to consult me about the options you have available. The social security website also contains countless resources to help you make the most informed decision possible.

The Protecting Americans from Tax Hikes Act of 2015

On December 18, 2015 President Obama signed The Protecting Americans from Tax Hikes Act into law. The act contains various provisions that will impact a wide spectrum of taxpayers. Most notably, some tax provisions have been extended permanently (i.e. until congress votes to take it away). However, other provisions are still being extended a year or two at the time just like always. Here is a summary of a few of the more popular provisions:

Permanently extended	**Temporarily extended**
$250 deduction for educators (adjusts for inflation)	Mortgage Insurance premiums paid or accrued allowed as deduction thru tax year 2016
State & Local sales tax deduction	Tuition & fees **deduction** for education expenses
$100,000 Qualified Charitable Deduction from IRA	Nonbusiness energy credit (windows & doors etc.)
Earned Income Credit marriage penalty relief & increase for those with 3 or more children	Cancelation of debt income exclusion on qualified personal residence thru tax year 2016
American Opportunity Educ Tax **Credit** (Schools now **required** to report tuition on form 1098-T)	Electric motorcycle credit (2 wheels) tax year 2016 3 wheeled vehicle credit was not extended
Child Tax Credit permanently set at $3,000 and imposes a $500 penalty for certain errors	Alternative fuel vehicle refueling credit thru tax year 2016
Section 179 deduction set at $500,000	50% Bonus depreciation thru tax year 2019
Section 529 plans now allow purchase of computers & peripherals if used for school.	The Work Opportunity Tax Credit (qualified long term unemployed individuals) thru tax year 2019

Automobile Expenses

Do you use your car for business purposes?

If you use an automobile for business, you may be able to receive a tax deduction to lower your income tax. Deducting auto expenses requires diligent recordkeeping and accurate calculations. There are two ways to calculate your auto deductions:

- **Actual expenses.** Track all eligible deductions, such as the cost of gas, oil, repairs, insurance, maintenance, tires, washing, licenses and depreciation or lease payments.
- **Standard mileage rate.** Instead of tracking the above expenses, track the business mileage you accrue and use a standard rate. For 2015, the standard mileage rate is 57.5 cents per mile.

Whether you own or lease your vehicle, both of these methods are viable options. Taxpayers who wish to use the standard mileage rate in lieu of actual expenses for computing deductible vehicle expenses must elect to do so in the first year of business use. Switching to the standard mileage rate in a later year is not an option.

To receive these deductions, you must keep accurate records of the miles incurred for business, dates of business use, destinations and the business purpose. You'll also need to note the odometer readings at the beginning and end of the year to determine the total miles for all uses. If records are not accurate enough and you are not able to substantiate your claim, the IRS may disallow a deduction for mileage. Please note that you cannot deduct commuting mileage—that is, mileage from your home to your regular job. However, if you're self-employed and maintain an eligible office in your home, you can deduct the mileage to and from your clients, as well as between jobs. You can also deduct mileage between jobs or to a temporary assignment. If you don't have a regular place of business, you can only deduct your transportation expenses to a temporary location outside of your general area of employment.

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Choosing a Business Entity

Making your most important business decision

If you're starting a business, one of the most important decisions you'll make is choosing what type of entity to operate as. Be sure to weigh your options, because an informed decision at the beginning can save you a great deal of time and expense later. Following is a list of the different entities.

- **Sole proprietorships** are the easiest type of business to form and to terminate. As a sole proprietor, you are the owner of all business assets and are liable for all business debts.
- **Partnerships** consists of two or more individuals who make a voluntary contract to carry on a trade or business. They are separate legal entities from their owners and are not taxable entities.
- **Corporations** are separate legal entities apart from their owner. A corporation is responsible for all of its own transactions and can be sued separately from its shareholders.
- **Associations** are unincorporated businesses that are taxed as corporations for federal tax purposes, even though they may not qualify as a corporation under state law. An association is treated as a partnership unless it elects to be taxed as a corporation.
- **Limited liability companies (LLCs)** are business entities separate from their owners and provide the LLC member with a limited amount of liability, which is usually only common to corporations.

- **Limited partnerships** follow most of the partnership rules, but limited partners are not (and cannot be) active in the business, as they are simply "investors" who share in the profits and losses of the business.
- **S corporations** follow most of the rules of a corporation, but income and losses are passed through to shareholders, thus avoiding double taxation.

Since understanding the tax consequences and operating procedures under each form of organization is vital to your success as a business owner, please turn to me for information regarding entity considerations for your specific situation.