TAX NEWS

SPRING 2016

IRS Announces 2016 Tax Rates, Standard Deductions, Exemption Amounts and More

The IRS has provided us with the tax rates necessary to prepare accurate tax projections for the 2016 tax year. These numbers are for the year beginning January 1, 2016 which will be used to project any potential tax liabilities and to prepare your 2016 tax returns in 2017.

If you are anticipating any major changes such as marriage, divorce, the birth of a child or the purchase of a home you may want to contact us to determine if your withholding or estimated payment amounts should be adjusted. Also, some of these life changes must be reported to the health insurance exchange if you are receiving the advanced premium tax credit.

Dear Client:

As always we appreciate your business during the tax season and beyond. For many accountants tax season does not end until the final due date deadline of October 15th. However, now is the time to start thinking about your 2016 tax situation and if any changes are needed to adequately prepare you for any possible tax liability.

If you receive your health insurance through either the federal or state exchange, it is imperative that you review your information regularly. One of the biggest challenges we faced this tax season was unexpected tax bills due to the Affordable Care Act. If the information provided to Healthcare.gov is not accurate it could result in the total disallowance of the premium tax credit. If this affects you, see the information provided later in this letter.

Of major concern to the IRS is the challenge to combat identity theft and refund fraud. Practitioners are facing many challenges in providing adequate protection for their clients. If you are asked to provide additional information or documentation it is for your protection. The tax software companies and the IRS are installing additional security protocols to assure the accuracy of the tax returns being filed.

Following are selected provisions and a brief description of the tax consequences. Be sure to contact our office if you have any questions regarding these tax provisions and how they may affect your tax return.

Tax brackets and tax rates for 2016:

INDIVIDUAL TAXPAYERS

IF TAXABLE INCOME IS BETWEEN	THE TAX DUE IS
$0 to $9,275	10% of taxable income
$9,276 to $37,650	$927.50 + 15% of the amount over $9,275
$37,651 to $91,150	$5,183.75 + 25% of the amount over $37,650
$91,151 to $190,150	$18,558.75 + 28% of the amount over $91,150
$190,151 to $413,350	$46,278.75 + 33% of the amount over $190,150
$413,351 to $415,050	$119,934.75 + 35% of the amount over $413,350
$415,050 +	$120,529.75 + 39.6% of the amount over $415,050

MARRIED FILING JOINT RETURNS and SURVIVING SPOUSES

IF TAXABLE INCOME IS BETWEEN	THE TAX DUE IS
$0 to $18,550	10% of taxable income
$18,551 to $75,300	$1,855 + 15% of the amount over $18,550
$75,301 to $151,900	$10,367.50 + 25% of the amount over $75,300
$151,901 to $231,450	$29,517.50 + 28% of the amount over $151,900
$231,451 to $413,350	$51,791.50 + 33% of the amount over $231,450
$413,351 to $466,950	$111,818.50 + 35% of the amount over $413,350
$466,950 +	$130,578.50 + 39.6% of the amount over $466,950

MARRIED FILING SEPARATELY

IF TAXABLE INCOME IS BETWEEN	THE TAX DUE IS
$0 to $9,275	10% of taxable income
$9,276 to $37,650	$927.50 + 15% of the amount over $9,275
$37,651 to $75,950	$5,183.75 + 25% of the amount over $37,650
$75,951 to $115,725	$14,758.75 + 28% of the amount over $75,950
$115,726 to $206,675	$25,895.75 + 33% of the amount over $115,725
$206,676 to $233,475	$55,909.25 + 35% of the amount over $206,675
$233,476 +	$65,289.75 + 39.6% of the amount over $233,475

HEADS of HOUSEHOLD

IF TAXABLE INCOME IS BETWEEN	THE TAX DUE IS
$0 to $13,250	10% of taxable income
$13,251 to $50,400	$1,325 + 15% of the amount over $13,250
$50,401 to $130,150	$6,897.50 + 25% of the amount over $50,400
$130,151 to $210,800	$26,835 + 28% of the amount over $130,150
$210,801 to $413,350	$49,417 + 33% of the amount over $210,800
$413,351 to $441,000	$116,258.50 + 35% of the amount over $413,350
$441,001 +	$125,936 + 39.6% of the amount over $441,000

The standard deduction amounts for 2016:

FILING STATUS	STANDARD DEDUCTION AMOUNT
Single	$6,300
Married Filing Jointly	$12,600
Married Filing Separately	$6,300
Head of Household	$9,300
Surviving Spouse	$12,600

The Benefits of a Roth IRA

In the last letter we had shared some information about a new Roth program, *my*RA, that was introduced by the Obama administration for those who had limited funds and were looking for some assurance of security for their investment. We also included an analysis of the various programs available that included both post-tax and pre-tax benefits.

In this issue we will focus on the traditional Roth IRA. The traditional Roth IRA still remains a very viable choice for those who want to maximize their investment options, tax savings, and retirement planning. Following are some facts about the Roth IRA that may help you with your choice of retirement vehicle:

1. **There's an annual contribution limit:**

   You cannot throw your entire life savings into a Roth IRA. In 2016, the maximum contribution limit for Americans is $5,500 with earned income. This is a dynamic number set by the Internal Revenue Service that tends to change with the rate of inflation every couple of years.

2. **But you can contribute more if you're older:**

   However, if you're age 50 or older; you are entitled to what is known as a "catch-up" contribution. The catch-up amount has been consistent at $1,000, meaning those with earned income after the age of 50 can contribute up to $6,500 in 2016.

3. **No age limits:**

   Unlike the traditional IRA, which disallows regular contributions starting the year you turn 70½, Roth IRAs have no age limit when it comes to regular contributions. With Americans regularly living into their 80s, 90s, and 100s, a Roth IRA is a tool that allows for ongoing contributions.

4. **Income limits could prevent your contribution to a Roth IRA:**

   You should also understand that not everyone will be able to open, or contribute to, a Roth IRA as it is based on their modified adjusted gross income. In 2016, single filers' Roth contributions could be limited if their adjusted income falls between $117,000 and $131,999. Adjusted income of $132,000 or above makes single filers ineligible for a Roth IRA contribution. For joint filers the phaseout begins at $184,000, with couples becoming ineligible at $194,000 of adjusted income. Contact us before setting up a monthly contribution to a Roth IRA to determine if your income falls within the allowable limits.

5. **...but there is a way around income limits:**

   The good news is Roth IRA income limits don't have to stop you—but they may slow you down a bit. Anyone, regardless of income, can open and contribute to a traditional IRA. Subsequently, a traditional IRA can be rolled over into a Roth IRA, since there are no income limits on converting your traditional IRA to a Roth IRA. What you need to keep in mind is that you can only roll over money from one IRA to another once within a 12-month period, thanks to new regulations implemented in 2015. If the funds contributed to the traditional IRA were pre-tax, then there will be a tax imposed when the funds are converted to a Roth, however no penalties will apply.

6. **Your eligible withdrawal age:**

   Regardless of whether you invest in a Roth IRA or traditional IRA, the age at which you become eligible to begin taking regular withdrawals is 59½. But as you'll see below, with a Roth IRA certain types of early, penalty-free withdrawals may be possible. (There are also specific situations that a traditional IRA withdrawal may also be penalty-free.)

7. **Tax-free in, tax-free out:**

   With a traditional IRA, an early withdrawal before age 59½ will likely be met with a 10% penalty on top of ordinary income tax. This makes sense given that traditional IRA contributions are in pre-tax dollars. With a Roth IRA, account holders can pull out what they've contributed to a Roth IRA at any time without tax or penalty (*not including investment gains*) since the money contributed is after-tax income. These contributions would probably be best left alone over time, but in a pinch they could be used for a mortgage or college tuition payment.

8. **The five-year rule:**

   However, when it comes to earnings and interest generated within a Roth IRA, account holders are required to wait five years before making a withdrawal. Failing to follow the five-year rule could make your distribution unqualified and expose your withdrawal to federal taxes. This five-year rule applies to contributions, as well as conversions. The five-year rule for regular contributions to a Roth starts January 1st of the first year of contributions. The five-year rule for conversions is based on when the conversion occurred. Separate records must be kept to accurately determine when the five-year period has run.

9. **Minimum withdrawals are not required:**

   One of the more beneficial aspects of a Roth IRA is that minimum distributions are not required. If you choose, you can let your Roth IRA grow without making a single withdrawal. Combined with no age limit for contributions, it's easy to see why Roth IRAs can be such a powerful retirement tool. By comparison, a traditional IRA does require a minimum distribution beginning the year in which you turn 70½.

10. **You could save a lot on your taxes in your golden years:**

    Of course the best thing about a Roth IRA is that if you follow the rules, none of your distributions beginning at age 59½ or after are taxable. If you begin contributing to a Roth IRA early in your working career, you could wind up saving hundreds of thousands of dollars thanks to time and compounding.

11. **Contributions can be made retroactively for tax purposes:**

    Lastly, contributions to a Roth IRA (as well as a traditional IRA) can be made up until the due date of the tax return (usually April 15th).

A Roth IRA can also be an effective planning tool if you own your own business and employ your children. While there are no age requirements for distributions from your Roth IRA, there is also no age requirement for setting up a Roth IRA. Since they will have earned income, the full amount can be contributed to a Roth IRA. Just remember to follow all the rules on employing your children and that they are a bona fide employee of your business.

Protecting taxpayers from identity theft and refund fraud

The IRS has formed a coalition of tax software companies, payroll companies, tax practitioners and other stakeholders to combat the proliferation of identity theft and refund fraud. The Security Summit Initiative was formed to identify new safeguards that will better protect taxpayers.

Identity theft occurs when someone steals your social security number in order to file a tax return claiming a fraudulent refund. Unfortunately, you may be unaware that this has happened until you have filed your tax return and receive a notification that a tax return has already been filed using your social security number. The IRS may also send you a notice that they suspect fraudulent activity using your social security number.

Remember, the IRS will NEVER call to threaten you, demand immediate payment, or that they will send the police to arrest you. The first point of contact will always be a notice from the IRS of any outstanding tax liability or unreported income on your tax return. Be sure to forward any notices you may receive to our office to determine if the notice is authentic and to research the discrepancy or the information requested.

The IRS has provided a course of action if you should find yourself the victim of identity theft:

Know the warning signs

Be alert to possible tax-related identity theft if you are contacted by the IRS that:

- More than one tax return was filed using your SSN.
- You owe additional tax, refund offset or have had collection actions taken against you for a year you did not file a tax return.
- IRS records indicate you received wages or other income from an employer for whom you did not work.

Steps to take if you become a victim

If you are a victim of identity theft, the Federal Trade Commission recommends these steps:

- File a complaint with the FTC at identitytheft.gov.
- Contact one of the three major credit bureaus to place a 'fraud alert' on your credit records:
  - Equifax, www.Equifax.com, 1-800-766-0008
  - Experian, www.Experian.com, 1-888-397-3742
  - TransUnion, www.TransUnion.com, 1-800-680-7289
- Contact your financial institutions, and close any financial or credit accounts opened without your permission or tampered with by identity thieves.

If your SSN is compromised and you know or suspect you are a victim of tax-related identity theft, the IRS recommends these additional steps:

- Respond immediately to any IRS notice; call the number provided or, if instructed, go to IDVerify.irs.gov.
- Complete IRS Form 14039, Identity Theft Affidavit, if your efiled return rejects because of a duplicate filing under your SSN or you are instructed to do so. Use a fillable form at IRS.gov, print, then attach the form to your return and mail according to instructions.
- Continue to pay your taxes and file your tax return, even if you must do so by paper.
- A complete step-by-step guide is available at www.identitytheft.gov. A comprehensive recovery plan is provided to guide you with the steps to take right away, what to do next to begin to repair the damage to your identity and credit, and other steps to be taken if appropriate. A checklist is available at www.identitytheft.gov/steps with the information you need to move through this process.

About data breaches and your taxes

Not all data breaches or computer hacks result in tax-related identity theft. It's important to know what type of personal information was stolen.

If you've been a victim of a data breach, keep in touch with the company to learn what it is doing to protect you and follow the "Steps for victims of identity theft." Data breach victims should submit a Form 14039, Identity Theft Affidavit, **only** if your Social Security number has been compromised and your efiled return was rejected as a duplicate or IRS has informed you that you may be a victim of tax-related identity theft.

How to reduce your risk

Join efforts by the IRS, states and tax industry to protect your data. We all have a role to play. Here's how you can help:

- Always use security software with firewall and anti-virus protections. Use strong passwords.
- Learn to recognize and avoid phishing emails, threatening calls and texts from thieves posing as legitimate organizations such as your bank, credit card companies and even the IRS.
- Do not click on links or download attachments from unknown or suspicious emails.
- Protect your personal data. Don't routinely carry your Social Security card, and make sure your tax records are secure.

Moving and Job Hunting Expenses

If you are seeking a new job you may incur a variety of expenses, including costs directly associated with moving to a new job location or those specifically related to the job search. Many of these expenses are deductible, but the rules are strict, and expenses must be carefully documented and substantiated. You may be able to take advantage of these deductions, if you plan carefully.

Any moving expenses you may incur, including expenses of traveling to the new location and transporting household goods and personal effects, are deductible so long as you meet certain requirements relating to when you begin work at the new position and how far the new job is from the old job and your old residence. These expenses are deductible even if you are seeking employment for the first time or in a completely new field. Also, qualified moving expenses reimbursed or paid by your employer are considered nontaxable fringe benefits.

You also may be able to deduct the expenses you incur in searching for a new job, including the costs of a headhunter or employment service, and the expense of preparing your resume. These expenses are deductible so long as the job being sought is in the same line of work as the old job, even if you are unemployed at the time of the job search. Further, the job search does not have to be successful in order to qualify for the deduction. However, job hunting expenses for a first job, or related to changing to a new career, are not deductible.

Considerations of whether the moving expense is tax deductible or not includible:

- **Closely related to the start of work test –** The move will be considered closely related to a new work location if the move is within one year of the date the taxpayer started working at the new location, and the distance from the new home to the new job location is not more than the distance from the old home to the new job location.
- **Distance test –** The new principal workplace must be at least 50 miles farther from the taxpayer's old home than the old workplace was. For example, if the old workplace was three miles from the old home, the new workplace must be at least 53 miles from the old home. If the taxpayer did not have an old workplace, the new workplace must be at least 50 miles from the old home. Members of the Armed Forces do not have to meet this distance test.
- **Time test –** Employees must work full-time in the general area of the new workplace for at least 39 weeks during the 12 months after the move. Self-employed taxpayers must work full-time in the general area of the new workplace for at least 39 weeks during the first 12 months and 78 weeks during the first 24 months after the move.
- **Exceptions –** The time test does not apply if the job ends because of disability, the employer transfers the employee, the employee was laid off for other than willful misconduct, the taxpayer is a member of the Armed Forces, the taxpayer meets certain requirements for retirees or survivors living outside the U.S., or the taxpayer is a decedent.

Eligible expenses include:

- The cost of transportation and storage (up to 30 days after the move) of household goods and personal effects.
- Travel, including lodging, from the old home to the new home. Travel is limited to one trip per person. However, each member of the household can move separately and at separate times. If the taxpayer drives his or her own vehicle, expenses can be figured either using actual out-of-pocket expenses for gas and oil (but not depreciation), or the standard mileage rate for moving (19¢ per mile for 2016), plus parking fees and tolls.
    - Not deductible: Cost of meals while traveling, temporary living expenses, or house hunting expenses before or after the move are not deductible.

Contact our office if you have any questions about any of the tax issues addressed in this newsletter or changes that may affect your tax situation.

Advanced Premium Tax Credit (PTC)

Reporting income and household changes

Any changes in your life circumstances should be reported as quickly as possible to the health insurance Marketplace. Certain changes may qualify you for a Special Enrollment Period, which allows you to make changes within 60 days of the event to change or update your coverage. Otherwise any changes to your policy or changing insurance providers must wait until the open enrollment period—generally certain dates during November and December. The open enrollment dates have not yet been announced for 2016 to make changes in your 2017 health insurance coverage. Some events that may qualify you for the Special Enrollment Period include:

- Losing health insurance coverage through work, including COBRA,
- Losing individual health coverage you bought for yourself,
- Losing eligibility for Medicaid, CHIP, or Medicare,
- Losing coverage through a family member,
- Changes in your household size due to marriage, divorce, a child (whether through birth, adoption, or foster care), death of a family member, or
- Change in residence.

Changes that should be reported on an ongoing basis, particularly if you qualify for the premium tax credit, or the change would qualify you include some of the following:

- Changes in income (either higher or lower),
- Changes in health coverage,
- Changes to the size of your household,
- Any corrections to previously provided information such as date of birth or social security number, or
- Changes in status such as tax filing status, incarceration, disability, or immigration status.

Contact us to help you determine if these changes may result in an additional federal tax liability. Adjustments can be made now to your payroll withholding or estimated tax payments to plan for this additional tax.