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Inside this issue

Tax & Business letter

SPRING **2016**

Discover tax savings in extended rules

The "extender" tax legislation passed in December made permanent many well-publicized tax deductions. But a peek under the hood reveals some lesser-known changes that could impact your taxes.

ABLE account changes

ABLE accounts – named for the *Achieving a Better Life Experience Act* that created them – are tax-beneficial savings accounts for qualified disabled individuals. The extender legislation eased the requirement that you had to open the account in the beneficiary's state of residence. Now you are free to open an ABLE account with any state program you choose.

"Cadillac" health plans

The 40% *Affordable Care Act* excise tax on high-dollar "Cadillac" health plans has been postponed until 2020.

Residential energy credit

You can claim a 10% energy credit for qualified improvements (up to a lifetime maximum of $500) when you improve your home with insulation, windows, and certain roofs. The credit is available for 2015 and 2016.

Commercial building energy deduction

The above-the-line deduction for energy efficiency improvements to lighting, heating, cooling, ventilation, and hot water systems in your commercial building is available for 2015 and 2016.

Payroll penalties

Beginning in 2017, small errors (generally $100 or less) on information returns such as Forms W-2 and 1099 will not trigger an automatic penalty. However, the law also reduces the time you have to file certain Forms 1099 and W-2 with the IRS and the Social Security Administration. Beginning with 2016 forms – the ones you'll file in January 2017 for 2016 payments – these returns are due January 31, the same date a copy is due to employees or other payees. The new due date applies to both paper and electronically filed 2016 Forms W-2 and W-3 and Forms 1099-MISC that report nonemployee compensation in box 7. The due dates for other information returns are not affected.

Straight-line depreciation for certain qualified assets

You can continue to benefit from the 15-year straight-line depreciation deduction for qualified leasehold, restaurant, and retail improvements.

For more information about other extended tax breaks, please contact our office. ◆

IRS TAX NOTES

Social security strategies change

The *Bipartisan Budget Act of 2015* made two changes to social security benefit strategies. "File and suspend" was a way for married couples to allow the higher earning spouse to claim benefits at full retirement age but suspend the benefits until a later date. Under the Act, this strategy will no longer be available after April 30, 2016.

"Restricted application" applied to married couples who had reached full retirement age and who were eligible for both a spousal benefit and a personal retirement benefit. These couples could file a restricted application for spousal benefits only, then delay applying for personal retirement benefits. If you'll turn 62 after 2015, the Act eliminated the ability to file a restricted application for only spousal benefits. However, if you were already 62 or older in 2015, you can continue to use the restricted application method for spousal benefits, but only upon reaching full retirement age.

Expensing safe harbor increases

In 2013, the IRS issued regulations clarifying when tangible real and personal business property can be expensed. The regulations provided safe harbors that let you deduct certain costs you'd otherwise have to capitalize. For example, using a *de minimis* safe harbor, you could elect to deduct individual capital expenditures of $500 or less if your business did not have an "applicable financial statement." (In general, an applicable financial statement is a financial statement based on a certified audit by an accounting firm.) Effective beginning with 2016 taxable years, this safe harbor has increased to $2,500 per invoice or item. In addition, the IRS says it will not contest similar treatment in audits of earlier years. ◆

Review financial decisions when interest rates change

For almost the entire past decade, interest rates held steady at near-zero levels. Then, in mid-December 2015, the Federal Reserve raised rates by one-quarter percentage point. Market watchers and economists expect further rate increases in the coming months. How will you be affected?

Technically speaking, only the federal funds rate – the short-term rate that credit-worthy banks and credit unions use to lend each other money – was adjusted in December. Even so, any interest rate revisions can cause a ripple effect throughout the economy. Accordingly, the Federal Reserve's actions probably will exert at least a moderate influence over financial choices you may make at home and in your business in 2016 and beyond.

Savings and debt

For example, as a consumer, you stand to gain from rising interest rates because you'll likely earn a better return on your deposits. Over the last ten years, placing your money in a certificate of deposit or passbook savings account has been hardly more profitable than stuffing it under a mattress. On the other hand, the cost of borrowing money will likely increase. As a result, mortgages, car loans, and credit cards will demand higher interest rates. That's not a big deal if you're already locked into low-interest fixed-rate loans. But if you have a variable rate loan or carry balances on your credit cards, you may find your monthly payments climbing upward.

Investments

On the investment front, market volatility may increase because rate increases are not completely predictable. Market sectors will likely exhibit varied responses to changes in interest rates. Those sectors that are less dependent on discretionary income may be less affected – after all, you need to buy gas, clothes, and groceries regardless of changes in interest rates.

As you adjust your financial plan, you might only need to make minor changes. Staying the course with a well-diversified retirement portfolio is still a prudent strategy. However, you may want to review your investment allocations.

Business

Rising interest rates can also affect your business. If your company's balance sheet is loaded with variable-rate debt, rising interest rates can affect your bottom line and your plans for growth. As the cost of borrowing increases, taking out loans for new equipment or financing expansion with credit may become less desirable.

Contact our office with your questions. We'll help you decide the most beneficial response to current and potential future changes in interest rates. ◆

Make tax-smart financial moves in 2016

Did your financial situation at the end of 2015 leave you less than satisfied with your progress? If so, tax-smart decision-making in 2016 could provide a helpful course correction. Here are suggestions to get you started on the right path.

■ **Get organized.** That unhappy feeling with last year's progress might be due to a lack of organization. Set up a filing system to arrange your tax papers and records. Once you're organized, review your monthly expenses and establish a budget you can live with. Online tools can help make that job much easier, or you can give us a call. We'll be happy to help.

Next, take your planning a step further and create an emergency fund. Consider setting aside six months of living expenses in an account you can tap easily.

■ **Be strategic.** Examine your investment portfolio for potential tax savings, such as selling stocks that are worth less than you paid to offset your capital gains. You might also donate appreciated stock that you have held for more than one year to charity and avoid capital gains altogether. With the tax on unearned income to watch out for, consider buying investments that pay tax-free income, such as municipal bonds.

■ **Look twice.** Some everyday tax moves deserve a second look. Review your employer's list of benefits to make sure you are making the most of them. Include lesser-known perks, if available, such as flexible spending accounts, commuting reimbursements, and employer-paid college expenses. If you have a qualified high-deductible health insurance plan, consider the benefits of a health savings account.

This is also a good time to analyze your tax withholdings and estimates for 2016. Changes to your job, marital status or dependents, a new home, or a serious health issue – all of these life events can affect your tax situation. Adjustments now can put extra money in your pocket when you need it most.

■ **Go long.** In addition to strategies that yield immediate benefits, think about your long-term finances. Take full advantage of your employer's retirement matching program. Consider contributing the maximum allowed, especially if you are nearing retirement age. In 2016, you can contribute up to $18,000 to your 401(k) plan, plus a $6,000 catch-up contribution if you're age 50 or over.

Are you ready to think really long term? Review your will and estate plan. Even though the current high-dollar exclusions may shield you from the estate tax, there are still good reasons for you to have a solid plan in place.

Does looking back at 2015 leave you feeling as though you could have done better financially? Contact us for more tax-smart planning moves you can make during 2016. ◆

You can benefit from these 2015 tax breaks

In mid-December 2015, Congress extended tax deductions and credits that had been scheduled to expire. Here are several you can benefit from as you prepare your 2015 personal and business federal income tax returns.

● **State and local sales tax deduction.** If you itemize, you can choose to deduct either the amounts you paid during the year for state and local income taxes, or your total state and local sales taxes. This deduction is now permanent.

● **Child credit.** You can claim this now-permanent $1,000 tax credit for each qualifying dependent child who was under age 17 on December 31. The credit, which reduces your tax dollar-for-dollar, is partly refundable but phases out as your income rises.

● **Depreciable property.** Under code Section 179, you can expense most types of otherwise depreciable real and personal property used in your business. For 2015, the maximum amount you can expense is $500,000 of the cost of qualifying property you placed in service during the year. The $500,000 is reduced when the cost of the property exceeds $2,000,000. The law made both these amounts permanent.

● **Education benefits.** The expired above-the-line deduction for higher education tuition and related expenses was retroactively extended and is available for 2015 and 2016. In addition, the American Opportunity Tax Credit, a credit of up to $2,500, is now permanent. Both the deduction and the credit are subject to phase-outs as your income rises.

● **Bonus depreciation.** In addition to Section 179, you can continue to benefit from the 50% bonus depreciation deduction for tangible personal property purchased and placed in service during 2015. Bonus depreciation was extended through 2019.

Contact us for more information on these tax breaks and others. ◆

2016 mileage reimbursement rate drops

Have you noticed the price of gas? So has the IRS – and the reimbursement rate for business mileage has gone down as a result. The new rate for 2016 is 54¢ per mile. That's a decrease of 3.5¢ from the 2015 rate of 57.5¢ per mile.

What do you need to do? If you use the standard mileage rate method to pay your employees or yourself for miles driven while on company business, update your reimbursement forms. Be sure to write your beginning-of-year odometer reading into your auto log.

Make sure your log contains the time, place, business reason, and mileage for each trip too, because you'll need documentation when you file your 2016 federal income tax return. Remember that even when you use the standard mileage rate, you can still reimburse yourself or your employees for parking and tolls. Interest on your auto loan may also be partially deductible when you're self-employed and use your car in your business.

Keep track of your actual vehicle expenses, as well. Why? As long as you used the standard mileage reimbursement method for the first year you owned your vehicle, you can switch to using actual expenses later. You can also switch back again in following years. Having the information on hand lets you figure out which method offers the most tax savings.

Other information you'll want to track: medical and moving mileage. Effective January 1, those rates are 19¢ per mile, down from last year's 23¢. The charitable mileage rate remains 14¢.

Got questions? Give us a call. We'll make sure you get the best mileage from your auto deductions. ◆

NOTE: *This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.*

We appreciate your business. Please call any time we can be of assistance to you in your tax, financial, or business affairs.

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Tax CALENDAR SPRING 2016

MARCH 15 – Deadline for calendar year corporations to elect S corporation status for 2016.

MARCH 15 – Deadline for filing 2015 tax returns for calendar-year corporations.

MARCH 31 – Deadline for electronic filers to submit 2015 information returns (such as 1099s) to the IRS.

MARCH 31 – Deadline for employers who file electronically to send copies of 2015 W-2s to the Social Security Administration.

MARCH 31 – Deadline for providing Form 1095-C to the recipient of health insurance coverage.

APRIL 18* – 2015 individual income tax , partnership, and gift tax returns are due.

APRIL 18* – Deadline for making 2015 IRA contributions.

APRIL 18 – Due date for first installment of 2016 individual estimated tax.

MAY 16 – Deadline for calendar year nonprofits to file annual reporting returns.

MAY 31 – Deadline for filing Form 1095-C with the IRS.

* April 19 for taxpayers in Maine and Massachusetts.