Myth vs. Truth

Tax Extensions & Tax Payments

Myth:
Filing a tax extension postpones my tax payments and avoids any IRS penalties.

Truth:
Even if you get an extension, you still have to pay at least 90% of your balance due to avoid a late tax payment penalty.

Myth:
The penalty for not filing a tax return or an extension by Tax Day is small. Not paying your tax by Tax Day is more expensive.

Truth:
Not filing a tax return or an extension is ten times more expensive than not paying your taxes on time! (5% vs. 0.5%).

Myth:
If it has been three years since the tax return due date, you don't have to file a tax return for that year anymore.

Truth:
After three years, you can no longer claim a tax refund for that year (but you must still file a tax return). Penalties and interest will be added to any tax balance due.

Home Office Deduction

Myth:
I have a desk and a computer at home and use it for work. I can claim an office in the home deduction.

Truth:
The IRS has three basic rules when it comes to the home office deduction:
(1) Regular and exclusive use – This means that the home office is regularly used for business and has no other use. As long as you have a room in your home that you are using exclusively for

See "Myth vs. Truth" on page 3

Your Masthead, CPA, EA
Company services, Affiliations

Phone: (111) 222-3333
Email: company@email.com
123 Elm Street
Anytown, USA 12345

Your Tax Calendar

Sep 15	3rd quarter estimated tax payments due.
Sep 15	Deadline for extended returns for corporation, partnership and fiduciaries.
Oct 1	Deadline to establish a Simple IRA for self-employed or small businesses.
Oct 17	Extended returns for 2015 due.
Dec 31	Last chance for 2016 deductions.
Jan 17	(2017) 4th quarter estimated payment due.

Anytime you have any questions, don't hesitate to call me. I am here for you!

Tax Tips For You.. *Now!*

❑ **Starting Social Security?**
If you are considering receiving your social security benefit, you have lots of questions.

❑ **62-66-70**
These are the "key" ages. "Early benefits can begin at any month after age 62. The "Normal" benefit starts at age 66. "Delayed" benefits can start as late as age 70.

❑ **"Early" Benefit**
You can start receiving payments at age 62. There are two considerations. (1) Your benefits are reduced by 25% of whatever amount the formulas give for your earning's history. Start at an age between 62 and 66 and the reduction is prorated over these 48 months. This will be your benefit for life. (2) If you continue working and earn too much in any year, you give back some of your benefits. This earning limit ends at age 66.

See "Tax Tips" on page 2

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TAX NEWS & TIPS

FALL 2016

Have Tax Laws Been Extended? Yes!

Unlike past tax extenders legislation, this time (December 2015) many of the provisions are permanently renewed. From the popular qualified charitable distribution (QCD) rules for making charitable contributions from an IRA for those over age 70 ½, to the American Opportunity Tax Credit for college, and the deduction for state and local sales taxes, this will be the last time that these key tax planning provisions remain in an end-of-year limbo! However, not all tax extender provisions were made permanent; a few, such as 50% bonus depreciation for businesses and the work opportunity tax credit, are only extended a few years.

Maximize Retirement Plan Contributions

There are a variety of retirement plan options available to most working taxpayers. Each has their own limits on contributions and benefits. Contribution amounts for all plans did not increase for 2016. The maximum you can contribute to a 401(k), 403(b), most 457 plans and the federal government's Thrift Savings Plan will remain at $18,000. The catch-up contribution will remain the same, too – you can contribute an extra $6,000 if you'll be 50 or older anytime in 2016. IRA and Roth IRA maximum contributions aren't changing either. You will be able to contribute up to $5,500 to an IRA in 2016, plus an extra $1,000 if you're 50 or older. The Roth IRA will not result in an immediate reduction to your tax burden. The Roth IRA will benefit you by eliminating taxes on future distributions.

Tax Tune-Up

2016 is more than half gone. This is a good time to ask yourself, "How am I doing?" Are you safe to presume things will be similar to 2015? Has your income changed? Regardless of your situation, adjustments to reduce your taxes should be evaluated now! There is still plenty of time to act. An added bonus is that these adjustments may help you to qualify for tax credits that would not be available to you with a higher income. Those credits are discussed later in this issue.

Adjustments to Income

Deductions for Everyone (Almost)!

❑ **Educator Expenses**
If you are an eligible teacher, counselor, principal, or aide, you likely have unreimbursed expenses for classroom books, supplies and other related expenses. Keep track of these receipts as you are allowed to write off $250 as an adjustment. We can deduct any excess of that amount as an Itemized Deduction.

❑ **Health Savings Accounts**
Contributions into these types of accounts not only provide for your medical needs but are good vehicles for reducing your tax liability. Maximize your contributions to these plans. Contributions that exceed your eligible expenses in a given year are generally carried forward to the following year.

❑ **Moving Expenses**
This could be a big one. With the uncertain economy many people are uprooting to move where the jobs are. If your move is job-related and you meet the time and distance tests, we can take deductions for the cost of the move and your lodging (but not your meals).

❑ **Self-Employed Health Insurance**
We don't want to miss this one! If you are self-employed, you may be able to deduct the premiums paid for health insurance and qualified long-term care insurance for you, your spouse and your dependents.

❑ **Penalty on Early Withdrawal of Savings**
When you receive your interest statements on Forms 1099-INT, we will check to see if any penalty amounts are listed. If so, these will reduce your taxable income.

❑ **Alimony Paid**
Alimony Paid. An income reducing adjustment is available if you pay alimony. Your former spouse must declare the alimony paid as income and pay taxes on it. If the amount taken as a deduction on your return doesn't match the amount declared as income by your ex-spouse, it may trigger an audit. We can discuss these situations.Call me.

❑ **Student Loan Interest**
If you are paying off student loans, you will receive a Form 1098E showing the amount of student loan interest you paid during the year.

❑ **Tuition and Fees**
Education credits are available, but you can't have both the credit and the adjustment. However, we might maximize the tax benefits by taking an adjustment to income instead of the credit, or the other way around. Your individual situation will dictate the course we take when I prepare your Return.

Inside This Issue

The Five Biggest Tax Credits *(Just The Basics)*

1).Earned Income Tax Credit (EITC)
One of the most substantial credits is the Earned Income Tax Credit. The EITC is determined by income and is phased in according to filing status: single, married filing jointly or either of those with children (head of household). Eligibility and the amount of the credit are based on adjusted gross income, earned income and investment income.
Caution: "Married filing separately" does not qualify for the EITC.

2). American Opportunity Tax Credit (AOTC)
The AOTC, which is set to expire after December 2017, covers four years of post-secondary education. The AOTC also broadens the range of taxpayers who may receive it by increasing the maximum income level.

The full credit is available to people whose modified adjusted gross income is $80,000 or less, or $160,000 or less for married couples filing jointly. These income limits are higher than those for another education credit, the Lifetime Learning Credit.

3). Lifetime Learning Credit
The Lifetime Learning Credit is available for an unlimited number of years for both non-degree and degree programs.

4). Child and Dependent Care Credit
The Child and Dependent Care Credit is available to people who must pay for childcare for dependents under age 13 in order to work or look for work.

5). Savers Tax Credit
The Savers Tax Credit is for eligible contributions to retirement plans such as qualified investment retirement accounts, 401(k)s and certain other retirement plans.

Income limits apply to all of these credits. Remember, if your income is greater than the credit limit, any adjustment discussed earlier may reduce your income to an eligible level.Using an adjustment may get you a credit!

Ask Me About...

- Roth conversion strategies – Accumulate large sums tax free. Are you a candidate?
- Are you a taxpayer age 70 ½ or older and need to take a required minimum distribution (RMD)? Can a distribution paid directly to a charity save additional taxes?
- Children heading off to college? What tax-wise options are available?
- Could using savings bonds for education expenses be a big tax saver…do I qualify? Do my bonds qualify?
- Starting distributions from a retirement plan? Lump-sum distribution possibilities? What are the tax consequences?
- Just lost your job? Do you have health care? Could you be eligible for a tax credit? Can the credit be used to reduce the premium on the health care?

❑ Extensions Expire October 17

A few of you still have not filed for 2015. Please make every effort to find remaining missing forms or information. We have very little time remaining to file your return. Contact me as soon as possible.

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❑ "Normal" Benefit At Full Retirement Age

If you were born between 1943 and 1954, at age 66 you receive the "normal" amount with possible yearly inflation adjustments. For those born after 1954, the full retirement age increases gradually to age 67. If you were born after 1960 then the full retirement age is 67. No earnings limits apply. In fact, additional earnings will now increase your benefit slightly.

❑ "Delayed" Benefit

For every month you delay after age 66 until age 70, your benefit increases. The annual increase is about 8%. No earnings limits apply.

❑ Tax Free Gains on Home Sales

Married couples can exclude up to $500,000 in gain from their income on the sale of their home as long as both spouses lived in the home for two of the five years before the sale. To claim the maximum exclusion you or your spouse (but not necessarily both) must also have owned the home for two out of the last five years. For single taxpayers, the same rules apply but the maximum exclusion is $250,000. If you used your home for business purposes and depreciated some part of your home there may be taxable income. Ask me.

❑ IRS Phone Scams Still Lurking!

Many phone scams use threats to intimidate and bully a victim into paying. They may even threaten to arrest, deport or revoke the license of their victim if they don't get the money.

Scammers often alter caller ID numbers to make it look like the IRS or another agency is calling. The callers use IRS titles and fake badge numbers to appear legitimate. They may use the victim's name, address and other personal information to make the call sound official.

Here are five things the scammers often do but the IRS will not do. Any one of these five things is a tell-tale sign of a scam.

The IRS will never: (1) Call to demand immediate payment, nor will the agency call about taxes owed without first having mailed you a bill. (2) Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe. (3) Require you to use a specific payment method for your taxes, such as a prepaid debit card. (4) Ask for credit or debit card numbers over the phone. (5) Threaten to bring in local police or other law-enforcement groups to have you arrested for not paying.

If you get a phone call from someone claiming to be from the IRS and asking for money, here's what you should do:

If you don't owe taxes, or have no reason to think that you do: (1) Do not give out any information. Hang up immediately. (2) Call 800-366-4484 to report the incident. (3) Call me!

❑ Big Income Jump This Year?

If you expect a large increase in your income this year, we need to talk.Sold stock or property? Received or will receive a work bonus? Changed jobs earning a much higher salary? Non-working spouse becomes employed? Stock options exercised? Gambling winnings? Looking at a lump-sum retirement payout? Call me.

❑ Refund Excess Social Security Taxes Withheld

Did you have more than $7,347 of social security taxes withheld from your wages? The refund procedure depends on whether the excess withholdings were caused by multiple employers exceeding the maximum or too much being withheld by a single employer.

Multiple employers - For tax year 2016, you'll have excess Social Security withholdings if the sum of multiple employers' withholdings exceeds $7,347.00 per taxpayer.

You don't need to take any action. I will automatically add the excess to your federal refund or subtract it from federal taxes you owe, whichever applies when I complete your 2016 Return. The excess will appear as a tax credit on your Form 1040.

Single employer - Your employer is supposed to withhold 6.2% of your Social Security Wages (the Box 3 amount on your W-2), up to a maximum of $7,347 per taxpayer for tax year 2016.

If one employer withheld too much Social Security tax, you won't be able to take a credit for the excess on your tax return.

If your employer withheld too much, contact them and ask for:
- A refund for the excess amount, and
- A corrected W-2 (also called a W-2c) which shows the correct Box 3 and Box 4 amounts.

Contact me if your employer will not correct your W-2 and refund the overpayment to you.

❑ Spousal IRAs

A spousal IRA allows a working spouse to contribute to a non-working spouse's retirement savings. Spousal IRAs can be either traditional or Roth and have the same annual contribution limits, income limits and catch-up contribution provisions as the working spouse's IRA does.

The couple must file a joint tax return. Total contributions for both the working and non-working spouse cannot exceed $11,000 in 2016, if you are both under 50. If you are both 50 or older, then the maximum amount is $13,000. The working spouse must have sufficient earned income to fund both IRAs. If you haven't made your IRA contribution(s) for 2016, you have until April 17, 2017, to do so.

❑ Tax Return Stats – 2013 & 2014

- Taxpayers in the Top 1-percent Adjusted Gross Income (AGI) $428,713
- Taxpayers in the Top 10-percent AGI $127,695
- Taxpayer Median AGI $36,841
- Percent of taxpayers that claim standard deductions 68.5%
- Percent of taxpayers that claim itemized deductions 30.1%
- Percent of Returns that are e-filed (Tax Year 2014) 92.2%
- Number of returns with AGI $1M or more (Tax Year 2013) 347,070
- Average individual refund amount (Tax Year 2013) $2,843

❑ Deduction For Work Clothing?

Some clothing is tax-deductible. Most is not. The only type of clothing for which you may take a deduction is clothing that is specifically required by your employer and is not suitable to wear outside of work.

❑ Deductible Mileage Rates

Beginning on Jan. 1, 2016, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:
- 54 cents per mile for business miles driven, down from 57.5 cents for 2015
- 19 cents per mile driven for medical or moving purposes, down from 23 cents for 2015
- 14 cents per mile driven in service of charitable organizations.

❑ Tips – Reported, Unreported & Allocated

All tips you receive are subject to federal income tax. This means the income you report on your tax return must include tips you receive directly, charged tips your employer pays to you, and tips you receive in a splitting or pooling arrangement. Generally, your tip income is included in the amount reported to you in Box 1 of your W-2.

According to the IRS, you must:
- Keep a daily tip record.
- Report tips to your employer.
- Report all your tips on your income tax return.

If you have not done either of the first two items above, you may need to meet additional reporting requirements on your tax return.

Allocated tips are tips your employer assigned to you in addition to the tips you reported to your employer for the year. If your employer allocated tips to you, that amount will appear in Box 8 of your W-2. No income, social security, or Medicare taxes are withheld on allocated tips.

❑ Rent Your Residence For Less Than 15 Days?

There is a special rule if you use a dwelling as a personal residence and rent it for fewer than 15 days. In this case, do not report any of the rental income and do not deduct any expenses as rental expenses.

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business on a regular basis, you meet this requirement.

(2) Principal place of business – The home office can't simply be a space that you occasionally use to conduct business. It must be the primary office from which you run your business. This means that you can't deduct expenses for a principal office outside of your home, in addition to your home office.

(3) Additional tests for employee use – As an employee, you may be able to take a home office deduction if you a) meet the two tests above, b) your business use of your home is for the convenience of your employer, and c) your employer does not pay rent for the space.

The expenses that you are deducting for the business use of your home must also be reasonable.