Major Tax Strategies… Revisited

Roth Conversion – Is It Right For You Now? The quickest way to get a relatively large sum into a tax-smart Roth IRA is by converting a traditional IRA into a Roth account. So doing a conversion before year-end could be a great tax planning strategy.

Here's what you need to know.

Conversion Basics

A Roth conversion is treated as a taxable distribution from your traditional IRA, because you're deemed to receive a payout from the traditional account with the money then going into the new Roth account. So doing a conversion before year-end will trigger a bigger federal income tax bill for this year (and maybe a bigger state income tax bill too).

However, today's federal income-tax rates might be the lowest you'll see for the rest of your life. For most folks, the so-called Bush tax cuts are still in effect, which means federal income-tax rates of 10%, 15%, 25%, 28%, 33% and 35%. Only high-income individuals are affected by the maximum 39.6% rate: You must have 2016 taxable income above $415,051 if you're single, $466,950 if you're a married joint filer, or $441,001 if you file as a head of household. So if you convert this year, you'll pay today's relatively low rates on the extra income triggered by the conversion and completely avoid the potential for higher future rates on all the post-conversion income that will be earned in your new Roth account. That's because qualified Roth withdrawals taken after age 59½ are totally federal-income-tax-free.

Clearly, the best candidates for the Roth conversion strategy are people who believe that their tax rates during retirement will be the same or higher than their current tax rates. If you fit into that category, please keep reading.

See "Tax Strategies" on page 2

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Your Tax Calendar

Jun 15	2nd quarter estimated tax payments due.
Sep 15	3rd quarter estimated tax payments due.
Sep 15	Deadline for extended returns for Corporation, Partnerships and Fiduciaries.
Oct 1	Deadline to establish a Simple IRA for self- employed or small businesses.
Oct 17	Extended Returns for 2015 due.

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

Tax Tips For You... *Now!*

❑ **Max Wages Subject To Social Security Tax**

The Social Security Administration (SSA) announced that there will be no increase in monthly Social Security benefits in 2016, and that the maximum amount of wages subject to Social Security taxes will also remain unchanged at $118,500. Earnings above this amount are not subject to the Social Security portion of the payroll tax or used to calculate retirement payouts.

❑ **Earnings Limit Unchanged**

The annual earnings limit for those who both work and claim Social Security benefits will stay at $15,720 in 2016 for individuals who opt to receive benefits early (ages 62 through 65). For those who turn 66 in 2016, the earning limit remains at $41,880.

❑ **Take Advantage of Inflation Tax Adjustments**

Inflation will have a nominal effect on about 40 tax provisions in 2016. Most notable is that income brackets

See "Tax Tips" on page 2

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TAX NEWS & TIPS

MID YEAR 2016

April 18 Is History! Is It Over?

It's Not, Now What?

Your return or Request for Extension has been filed. BUT, you may not be able to relax quite yet.

Extension Filed?

October 17 is the return filing deadline ***but*** April 18 was the deadline for payments. Continue to gather documents that were missing earlier and search for any items necessary to verify Schedules with incomplete information. Let's file as soon as we have all of your information. If you owe any additional tax, the IRS will add some interest and penalty to the bill.

Still Searching For That Refund?

You may contact the IRS Website www.irs.gov at the "Where's my Refund?" link to check the status of your refund. Another option is calling the IRS Tax Hotline at 800-829-1954. Both the Website and Hotline are updated every 24 hours. Note that E-Filed returns are now tracked by the IRS in hours, however paper filed returns can take as long as 4-6 weeks. You will need to have your social security number, filing status and refund amount available when inquiring through the IRS about your refund status.

Still Owe?

The IRS will send a bill. The bill will show your balance plus any interest and/or penalty. Pay as soon as possible to avoid additional charges.

❑ **Installment Plans.** IRS offers installment plans with set-up fees of up to $120 if the amount owed for tax, penalties and interest is $50,000 or less and all tax returns have been filed timely. I can help.

❑ **Credit Card Payments.** A "convenience fee" up to 2.25% applies plus any interest until the balance is paid off. Call 1-888-PAY1040 to set up plan.

On No! I Forgot…

If you forgot some key information, I can file an amended return. You have 3 years after the filing deadline to change your return. Most 2012 & earlier returns have passed their deadline for filing an amendment. Call me if you have discovered tax documents or information that you originally omitted from a previously filed Tax Return.

❑ **Uh-Oh…An IRS Letter!** If you get a letter from the IRS, try not to panic, just call me. The letters can be confusing. Don't risk making an even bigger mess! We can handle it together.

❑ **Will I Be Audited?** There's no sure-fire way to know. Your chance of an audit is less than 1%. That 1 in 100 chance is reduced to 1 in 250 if your return doesn't include income from a business, rental real estate or employee business expenses. Almost 70% of all "audits" are really done by a computer. The IRS compares various forms like W2s and 1099 forms from your employer, banks and brokers with what's on your return. When they spot enough of a discrepancy, an IRS letter is generated that appears to be a bill.

Don't pay it yet! Send it to me and we will assess the situation. The IRS is not always right!

❑ **Keep Me Posted!** We won't be doing your 2016 return for several months but we can stay alert for changes that could create a tax surprise. Let me know about any new income items or changes in the members of your household.

Inside This Issue

Thank You!

"Tax Season" is a game that is always challenging…this year the game went extra innings with three additional filing days! Your recordkeeping made it so much easier. Thank you for your patience during this busy time. I will continue working to keep your trust and confidence.

Affordable Care Act (ACA) Tax Increases Are Now Locked Through 2016

Here's a quick refresher on the Affordable Care Act tax increases that could affect you.

Tax Penalties Related To Affordable Care Act Are Going Up Again

The Affordable Care Act imposed penalties for those not having qualifying health care coverage. Those penalties started at $95 per adult, or 1% of income above the filing threshold in 2014, but they rose to $285 per adult, or 2% of income above the filing limit in 2015. For 2016, penalties will rise again, hitting $695 per adult, or 2.5% of income. A family maximum will apply to the per-person amount, but the $2,085 amount will be substantially

See "Affordable Care" on page 3

"Tax Strategies" from page 4

Consider A Multi-Year Conversion Strategy

Converting a traditional IRA with a relatively big balance, could push you into a higher tax bracket. For example, if you're single and expect this year's taxable income to be about $150,000, your marginal federal income tax bracket is "only" 28%. Converting a $100,000 traditional IRA into a Roth account this year would cause most of the extra income from converting to be taxed at 33%.

But if you spread the conversion over three years (which you are allowed to do), the extra income from converting would be taxed at 28% (assuming Congress leaves the current tax rates in place through 2018).

Never Fear, Mistakes Can Be Corrected: You Can Reverse An Ill-Advised Conversion

Another cool thing about the Roth conversion strategy is that you can always change your mind well after the fact. Believe it or not, you have until Oct. 15 of next year to re-characterize (reverse) a 2016 conversion. For example, say you convert a traditional IRA into a Roth account between now and year-end. Then the value of the converted account takes an unexpected nosedive. In this unhappy scenario, you would still have to pay extra 2016 income tax on value that later disappeared. Bad! Very Bad!

Thankfully, that risk is mitigated by the fact that you have until Oct. 15, 2017 to re-characterize the converted account back to traditional IRA status. After the re-characterization, it's like the ill-fated 2016 conversion never happened. So you don't owe any extra tax from the now-reversed conversion. Good! Very Good!

The Bottom Line

Relatively low current tax cost for converting, plus a chance to avoid higher tax rates in future years on income that will accumulate in your Roth account equals a continuing perfect storm for the Roth conversion strategy. But you have to get it done this year to start reaping the tax-saving benefits.

That said, please don't get carried away. We can discuss and plan a strategy.

Qualified Charitable Distributions (QCD)

The Consolidated Appropriations Act of 2016 finally made qualified charitable distributions (QCDs) from individual retirement accounts permanent.

Because QCDs are finally permanent, now's a good time to review the rules.

A QCD permits annual direct transfers to a qualified charity totaling up to $100,000 of tax-deferred IRA savings. Funds that have been distributed from the IRA to the IRA owner and are then contributed to charity do not qualify. QCDs offer advantages over taking a taxable IRA distribution and then contributing the proceeds of that distribution to a charity. That's because taxable IRA distributions must be included in adjusted gross income. As a result:

- Income taxes on Social Security benefits can increase,
- Adjusted gross income (AGI) limitations on annual charitable deductions can defeat current deduction of the charitable contribution of IRA distribution proceeds (carryovers to a limited number of future tax years is available),
- AGI limitations reducing itemized deductions can apply, and
- Medicare insurance premiums can increase.

QCDs avoid those results.

Importantly, QCDs automatically satisfy required minimum distributions (RMDs) for the year when the QCD is made. That's a real advantage for a charitably minded IRA owner who doesn't need RMDs to live on.

Only individuals who've attained age 70½ may make QCDs.

The charitable donee must be an organization that qualifies for a charitable income tax deduction of an individual.

The charity that receives the donation must provide the same contribution acknowledgment needed to claim a charitable income tax deduction. Failure to obtain the acknowledgment will squash the QCD.

QCDs may be made from any IRA or individual retirement annuity, but not from a simplified employee pension, a simple retirement account or an inherited IRA.

To make a contribution, contact the charity to determine the exact payee name for the check. Then, using that name, instruct your IRA trustee or custodian to make a transfer from the IRA directly to charity. It won't qualify if the trustee or custodian makes the mistake of putting IRA money in a non-IRA account of yours as an intermediate step. It won't qualify if the check is made out to you. The Internal Revenue Service has said that a check from an IRA may be made payable to a charitable organization.

Be sure to obtain a letter of acknowledgment from the charity.

"Tax Tips" from page 4

widened a tad. This means you can earn a bit more in 2016 without being bumped into a higher tax bracket. Most people claim the standard deduction. Those amounts for each filing status in 2016 are increased slightly, as is the personal exemption amount. However, the amounts you can contribute to your workplace pension plan and individual retirement account in 2016 will stay the same as in 2015.

❑ Adjust Withholding Taxes

Most taxpayers get a Federal tax refund every year. For many of you, it's an easy way to save money for a major project or special purchase. Many refunds were received later than in previous years. You can eliminate this annual wait from the IRS for your refund by not getting one in the first place. Simply adjust your withholding taxes from your paycheck, pension, unemployment checks or social security checks. It's easy. Call the payer of your check (your payroll department for paychecks) and fill out the paperwork. The IRS even has an online calculator to help you www.irs.gov/irs-withholding-calculator. Or, call me. I can help with your calculation. On the flip side, if you owed significant taxes for 2015, you may want to increase your withholding amounts on your paycheck, pension or social security check. Pay the IRS as you go along or, be hit again with a large tax balance due. It's ultimately up

"Affordable Care" from page 1

higher than the $975 in 2015, and the $285 in 2014.

Additional 0.9% Medicare Tax On Salaries and Self-Employment Income Earned By "Wealthy" Folks

Before ACA, the Medicare tax on salary and/or self-employment income was a flat 2.9%. If you're an employee, 1.45% was withheld from your paychecks, and the other 1.45% was paid by your employer. If you're self-employed, you paid the whole 2.9% yourself.

After ACA, an extra 0.9% Medicare tax is charged on: (1) salary and/or self-employment income above $200,000 for an unmarried individual, (2) combined salary and/or self-employment income above $250,000 for a married joint-filing couple, and (3) salary and/or self-employment income above $125,000 for those who use married filing separate status. For self-employed individuals, the additional 0.9% Medicare tax hit comes in the form of a higher self-employment bill.

Additional 3.8% Medicare Tax On Investment Income Collected By "Wealthy" Folks

Before ACA, investment income was not subject to any sort of Medicare tax.

After ACA, all or part of your net investment income, including long-term capital gains and dividends, can get socked with a 3.8% Medicare surtax (the so-called net investment income tax). Therefore, the maximum federal rate on long-term gains and qualified dividends is actually 23.8% (20% for the "regular" capital gains tax plus 3.8% for the net investment income tax) versus the IRS advertised 20% maximum rate.

Fortunately, the 3.8% surtax will not hit you unless your adjusted gross income exceeds: (1) $200,000 if you're unmarried, (2) $250,000 if you're a married joint-filer, or (3) $125,000 if you use married filing separate status.

If you are affected, the 3.8% surtax applies to the lesser of your net investment income or the amount of adjusted gross income in excess of the applicable threshold. For example, a married joint-filing couple with adjusted gross income of $325,000 and $100,000 of net investment income would pay the 3.8% surtax on $75,000 (the amount of excess adjusted gross income). If the same couple has adjusted gross income of $400,000, they would pay the 3.8% surtax on $100,000 (the entire amount of their net investment income). Confusing? You bet! Can I help make sense of this? Absolutely!

Higher Threshold For Itemized Medical Expense Deductions

Before ACA, you could claim an itemized deduction for medical expenses paid for you, your spouse, and your dependents, to the extent those expenses exceed 7.5% of your Adjusted Gross Income.

After ACA, the hurdle is raised to 10% of adjusted gross income. However, if either you or your spouse is age 65 or older at year-end, the more favorable 7.5%-of-adjusted gross income threshold remains in force for this year. For 2017 and beyond, however, the 10%-of-adjusted gross income deduction threshold will apply to everybody, regardless of age. Medical deductions are becoming much more difficult to claim since the percentage was increased.

Affordable Care Act's Reporting Requirements

Q. Do I need to have my Form 1095-A from the Marketplace before I have my return prepared for filing?

A. Yes. If you were expecting to receive a Form 1095-A, you should have waited to have me file your 2015 income tax return (or file an extension) until you receive that form. Form 1095-A provides information that I will need to complete Form 8962, Premium Tax Credit, and reconcile advance payments of the premium tax credit or – if you are eligible – to claim the premium tax credit on your tax return.

If you have questions about the information on Form 1095-A, or about receiving Form 1095-A, you should contact your Marketplace directly. Neither I nor the IRS will be able to answers questions about the correctness of information on your Form 1095-A. We also cannot offer comments on missing or lost forms. If you receive a corrected Form 1095-A after I filed your 2015 Tax Return, we will need to file an amended return.

Q. What happens if I don't reconcile my advance payments of the premium tax credit when I file my return?

A. Filing your return without reconciling your advance payments will delay your refund and may affect future advance credit payments. The IRS will send you a letter with instructions about what you need to do to resolve this issue, which may include submitting Forms 1095-A and 8962. This may require filing an amended Tax Return if you did not have the Form 1095-A when your Return was prepared.

Q. Must I file an amended Tax Return if I received health care tax forms (Forms 1095-B or 1095-C) after having my Return originally filed?

A. It is not necessary to wait for Form 1095-B, Health Coverage, or Form 1095-C, Employer-Provided Health Insurance Offer and Coverage, in order to file.

to you…you can stop the stress on your wallet by acting sooner rather than later.

❑ IRS Penalties *Can* Be Avoided!

If you owe federal tax on your 2016 tax return, you do not have to pay an underpayment penalty if either:

- Your total tax is less than $1,000,

  or
- You had no tax liability in 2015.

In general if neither of the above apply, you may owe a penalty for 2016 if the total of your withholding and timely estimated tax payments did not equal at least the smaller of:

1. 90% of your 2016 tax, or
2. 100% of your 2015 tax. (Your 2015 tax return must cover a 12-month period.)
3. Higher income taxpayers. If your AGI for 2015 was more than $150,000 ($75,000 if your 2015 filing status is married filing a separate return), substitute 110% for 100% in (2) above.