JENNIFER A. JONES, CPA, LTD.

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2015 Cost-of-Living Limits

IRA Contribution Limit $5,500

IRA 50 & Over Catch-up Contribution $1,000

401(k) Deferral Limit $18,000

401(k) 50 & Over Catch-up Contribution $6,000

SIMPLE Deferral limit $12,500

SIMPLE 50 & Over Catch-up Contribution $3,000

Annual Compensation limit $265,000

Defined Contribution IRC Sec 415 limit $53,000

Compensation limit for SEP eligibility $600

IRC Section 179 $25,000

Estate Tax Exclusion $5,430,000

Gift Tax Annual Exclusion $14,000

Social Security Wage Base $118,500

2014 & Prior Years' Limits

2015 Standard Mileage Rates:

Business mileage rate **$0.575**

Medical & Moving mileage rate **$0.230**

Charitable mileage rate **$0.14/mile**

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Cost of Living Adjustments: Because the consumer price index did not increase from the third quarter of 2014 to the third quarter of 2015, there will be no cost-of-living adjustment (COLA) in the amount of Social Security benefits paid next year. When there is no COLA in Social Security benefits, an increase in the amount of wages subject to Social Security taxes is prohibited by law. So the current $118,500 maximum amount of earnings subject to Social Security taxes will also apply in 2016. Among the other unchanged limits is the amount a worker under full retirement age can earn before he or she has Social Security benefits reduced. The limit remains at $15,720 a year, after which $1 in benefits is withheld for every $2 earned above the limit. - -**Back to Top**

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Taxpayer Losses to IRS Scammers Exceed $20 Million

The Treasury Inspect General for Tax Administration (TIGTA) has received reports of approximately 600,000 contacts from IRS imposters since October 2013. The scammers use fear and a variety of deceitful tactics to trick taxpayers. In the early stages, the scammers targeted elderly, newly arrived immigrants, and those whose first language is not English. However, they are now targeting virtually anyone. The scammer alters what appears on the taxpayer's caller ID to make it appear as though they are with the IRS or another agency; use fake names, titles, and badge numbers; and use online resources to obtain the taxpayer's name, address, and other details about them to increase their credibility. Some will provide victims directions to the nearest bank or business where payment, such as a debit card, can be obtained. Taxpayers are urged to remember the IRS's website is www.irs.gov and to not be misled by sites claiming to be the IRS when ending in .com, .net, .org, or other designations. IR-2015-99. . **Back to Top**

Scam Phone Calls Continue; IRS Identifies Five Easy Ways to Spot Suspicious Calls

In previously issued consumer alerts, the Internal Revenue Service provided taxpayers with additional tips to protect themselves from telephone scam artists calling and pretending to be with the IRS, or showing up with authentic looking fake IRS badges.

These callers and con artists may demand money or may say you have a refund due and try to trick you into sharing private information. These con artists can sound convincing when they call. They may know a lot about you, even the last four digits of your SSN or FEIN, and they usually alter the caller ID to make it look like the IRS is calling. They use fake names and bogus IRS identification badge numbers. If you don’t answer, they often leave an “urgent” callback request. They may threaten to confiscate your driver's license or business license if payment is not made immediately. They may have a cohort call claiming to be from the local police department or sheriff to repeat the threats.

“These telephone scams are being seen in every part of the country, and we urge people not to be deceived by these threatening phone calls,” IRS Commissioner John Koskinen said. “We have formal processes in place for people with tax issues. The IRS respects taxpayer rights, and these angry, shake-down calls are not how we do business.” Virginia is cited as one of the states with the high incidents of these scams.

The IRS reminds people that they can know pretty easily when a supposed IRS caller is a fake. 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:

- Call you about taxes you owe without first mailing you an official notice.
- Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe.
- Require you to use a specific payment method for your taxes, such as a prepaid debit card.
- Ask for credit or debit card numbers over the phone.
- Threaten to bring in local police or other law-enforcement groups to have you arrested for not paying.

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

- If you know you owe taxes or think you might owe, call the IRS at 1.800.829.1040. The IRS workers can help you with a payment issue.

- If you know you don't owe taxes or have no reason to believe that you do, report the incident to the Treasury Inspector General for Tax Administration (TIGTA) at 1.800.366.4484 or at www.tigta.gov.
- If you've been targeted by this scam, also contact the Federal Trade Commission and use their "FTC Complaint Assistant" at FTC.gov. Please add "IRS Telephone Scam" to the comments of your complaint.
- You may even want to contact the local police.

Remember, too, the IRS does not use unsolicited email, text messages or any social media to discuss your personal tax issue. For more information on reporting tax scams, go to www.irs.gov and type "scam" in the search box. Additional information about tax scams are available on IRS social media sites, including YouTube and Tumblr where people can search "scam" to find all the scam-related posts.

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Recent Court Decision Reminds Us Why It's Important to Understand the Mortgage Interest Tracing Rules

Background

In a recent decision, the Tax Court denied a married couple's claimed deduction for investment interest expense. One of the reasons was the Tax Court's finding that they failed to show that the borrowed funds, which came from a loan secured by their personal residence, were expended for investment purposes. [See Minchem International, Inc., TC Memo 2015-56 (Tax Ct. 2015)] In other words, the taxpayers fell under the so-called interest tracing rules with unfavorable results. This release explains the Tax Court's decision (which is highly suspect to put it mildly) while also serving as a reminder about how the interest tracing rules work and
why they are important to individual taxpayers.

Interest Tracing Basics

Temp. Reg. 1.163-8T supplies the framework for the interest tracing rules that apply to individual taxpayers. The rules are easy to apply when the taxpayer: (1) deposits loan proceeds that will be used for different types of expenditures into different accounts before expending the funds for those purposes or (2) arranges for loan proceeds to be paid directly to a seller of property (such as in a real estate or auto purchase transaction) or provider of services. In these situations, the loan proceeds can be directly traced to a specific expenditure with no muss and no fuss, and the related interest expense is then classified based on the nature of the expenditure as personal interest, qualified residence interest, business interest, passive interest, or investment interest. Simple!

For example, when loan proceeds are deposited into a business account used solely for the taxpayer's Schedule C business in which the taxpayer materially participates, the interest will be classified as business interest (fully deductible). Similarly, when a brokerage firm margin account is used solely to purchase taxable securities, the interest will be classified as investment interest (deductible to the extent of investment income for the year with any excess carried over to the following tax year).

Interest Tracing in More Complicated Circumstances

Things become more complicated when proceeds from several loans are commingled in a single account from which expenditures for various purposes are made. Ditto when borrowed funds are comingled with

unborrowed funds and used for various purposes. In these scenarios, Temp. Reg. 1.163-8T prescribes tracing rules to match borrowings (and the related interest) with expenditures. The interest tracing rules are applied separately to each account in which borrowed funds are deposited and can be briefly summarized as follows.

1. When borrowed funds are deposited into an account that already contains some unborrowed funds, the borrowed funds are presumed to be expended first. Unborrowed funds deposited after borrowed funds are presumed to be expended after the borrowed funds have been exhausted.

2. When borrowed funds from several loans are deposited into an account at different times, the funds from the earliest loan are presumed to be expended first (FIFO concept).

3. When borrowed funds from several loans are simultaneously deposited into an account, the taxpayer can select the order the funds are presumed to be deposited into the account. No formal election is required.

4. Except when the 30-day rule explained in item 7 below or the 90-day rule explained in item 8 below applies, an expenditure is not attributed to borrowed or unborrowed funds that are deposited into an account after the expenditure.

5. Except for home equity debt, the fact that specific property secures specific debt is generally irrelevant in categorizing the related interest expense. However, when a loan is secured by tax- exempt property (such as municipal bonds), the related interest is not deductible (Rev. Proc.
72-18).

6. Unexpended loan proceeds deposited into an account are presumed to be held for investment. When the borrowed funds are expended, the character of the interest is reclassified based on the type of expenditure (personal business, passive, etc.). However, solely for interest reclassification purposes, the taxpayer can treat an expenditure as occurring on the later of the first day of the month the expenditure was made or the date the loan proceeds were deposited.

7. If an expenditure from an account (or from cash not held in an account) is made within 30 days before or after the deposit (or receipt in cash) of borrowed funds, the taxpayer can treat the expenditure as made from the borrowed funds to the extent of such borrowed funds. This treatment is set forth in IRS Notice 89-35, and it overrides the result that would occur by applying the "standard" interest tracing rules explained earlier. Choosing this treatment does not require a formal election. However, taxpayers should document when the 30-day rule is used. (The regulations prescribe a similar 15-day rule, but that rule was liberalized into the 30-day rule by Notice 89-35.)

8. A special 90-day rule can be used for debt incurred to acquire, construct, or substantially improve a residence. Under the 90-day rule, the taxpayer can treat debt as if it was incurred to acquire a residence to the extent payments are made to acquire the residence within 90 days before or after the date the debt is incurred (IRS Notice 88-74). This rule overrides the general interest tracing rules and the 30-day rule explained earlier.

Classifying Excess Interest from Debt Secured by a Personal Residence

Only for qualified residence interest is the property securing the debt important in determining the tax treatment of the related interest expense. Qualified residence interest expense on up to $1 million ($500,000 for married filing separately) of acquisition indebtedness plus up to $100,000 ($50,000 for married filing separately) of home equity indebtedness is fully deductible for regular tax.

Temp. Reg. 1.163-10T provides two methods—the simplified method and the exact method —for determining a taxpayer's qualified residence interest deduction when the amount of debt secured by a personal residence exceeds the applicable statutory limitation ($1 million for acquisition debt, $100,000 for home equity debt, $50,000 for home equity debt for a married individual who files separately). The two methods also account for the excess interest (the amount of interest from secured debt that cannot be treated as qualified residence interest due to the applicable statutory limitation).

Under the regulations, the simplified method treats all excess interest (as calculated under the simplified method) as nondeductible personal interest, even if some or all of the excess interest could be traced under the interest tracing rules of Temp. Reg. 1.163-8T into a deductible category (such as investment interest or business interest). [See Temp. Reg. 1.163-10T(d).] However, the IRS said in Chief Counsel Advice (CCA) 201201017 , that the home mortgage interest deduction worksheet found in IRS Publication 936 is an acceptable version of the simplified method. According to the CCA, taxpayers can follow the instructions to that worksheet in conjunction with the interest tracing rules to trace excess interest into a deductible category. In other words, the CCA and the instructions to the Publication 936 worksheet contradict Temp. Reg. 1.163-10T(d) by allowing excess interest to be traced into a deductible category.

Under the regulations, the exact method explicitly allows excess interest from secured debt (as calculated under the exact method) to be traced under Temp. Reg. 1.163-8T into deductible categories (such as investment interest or business interest). [See Temp. Reg. 1.163-10T(e) .]

Facts Underlying the Recent Tax Court Decision

In 2002, Jerry Sun and his wife Sun Nam Sun (who we will call the taxpayers in this case) completed a cash purchase of a lot and built a personal residence on it. They did not borrow to finance the lot or construction. In 2003, they borrowed $1,736,079 from a bank and secured the debt with the residence. The borrowed funds were transferred directly from the lender to the corporate account of Minchem International, Inc. The company was a C corporation that was wholly owned by Mr. Sun and engaged in the business of importing and distributing industrial minerals.

In 2006, Mr. Sun refinanced the loan for $2,501,934 and continued to use the residence to secure the debt. In 2008 and 2009 (the tax years in question), the taxpayers paid interest of $173,343 and $157,835 on the loan, respectively. The Suns allocated the interest between qualified residence interest and investment interest on their 2008 and 2009 Schedules A.

For 2008, the Suns deducted $7,046 of the interest paid in that year as qualified residence interest and carried the remaining $166,297 forward as investment interest, which was deducted in 2009. For 2009, the Suns deducted $60,000 of the interest paid in that year as qualified residence interest and deducted the remaining $97,835 as investment interest.

After an audit, the IRS completely denied the taxpayers' 2009 investment interest expense deduction and adjusted their 2009 deduction for qualified residence interest. This case also included several other complicated issues, some of which involved Minchem International. The whole mess wound up in the Tax Court. In this analysis, however, we will only address the taxpayers' interest expense deduction issues under the individual federal income tax rules.

What the Tax Court Concluded

The Tax Court noted that interest on home equity debt of up to $100,000 ($50,000 for a married taxpayer who files separately) can be treated as qualified residence interest and that Temp. Reg. 1.163-10T provides two methods (the aforementioned simplified and exact methods) for determining a taxpayer's qualified residence interest deduction when the amount of debt secured by a personal residence exceeds the applicable limitation ($100,000 in this case).

The taxpayers argued that the example in Temp. Reg. 1.163-10T(e)(4)(ii) , explaining the exact method, applied to them and would allow a big investment interest expense deduction. But no! According to the Tax Court, the taxpayers failed...“to recognize the differences between the simplified method and the exact method—or explain the application of either.” Whatever that means! The taxpayers were completely out of luck with respect to the investment interest issue. Instead, the Tax Court could have directed the parties to recalculate the taxpayers' allowable investment interest expense deduction under the exact method or under the version of the simplified method endorsed by CCA 201201017.

In an even more puzzling move, the Tax Court further concluded that the taxpayers failed to substantiate their claimed investment interest deduction because they did not show that the borrowed funds were expended for investment purposes—even though they were deposited directly into Minchem International's account. That would seem to clearly indicate an investment purpose (to generate future dividends and/or capital gain from eventually selling the shares). While Minchem International's general ledger showed that the company had treated the funds from the mortgage loan proceeds as a personal loan from Mr. Sun to the company, that too would seem to clearly indicate an investment purpose on his part (to generate future interest income or dividends from the corporation or capital gain from eventually selling the stock), but not according to the Tax Court.

Bottom Line: Wow! The Tax Court completely punted on its responsibility to the taxpayers by passively agreeing that the IRS had properly denied their claimed deduction for investment interest expense. Not good!

Moral of the Story: What the Taxpayers Could Have Done Differently

In Minchem International , the Tax Court's ruling on the investment interest expense question is, to be kind, highly debatable. However, the taxpayers could have avoided the whole issue by: (1) carefully following the rules for the treatment of excess interest from debt secured by a personal residence, (2) documenting that the debt proceeds were traced to Minchem International's account under the rules found in Temp. Reg. 1.163-8T , and (3) documenting that the funds were deposited into Minchem's account for investment purposes.

There is another way the taxpayers could have avoided the whole issue. They could have made an election under Temp. Reg. 1.163-10T(o)(5) to treat all of the mortgage debt in question as not secured by their personal residence. Then, they could have followed the interest tracing rules found in Temp. Reg. 1.163-8T to trace the funds into Minchem's account and documented that they were deposited into that account for investment purposes.

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Estate Tax Portability Election Final Regulations

Beginning January 1, 2011, estates of decedents survived by a spouse may elect to pass any of the decedent’s unused estate tax exclusion to the surviving spouse. The surviving spouse can apply the deceased spousal

unused exclusion (DSUE) amount received from the estate of his or her last deceased spouse against any tax liability arising from subsequent lifetime gifts and transfers at death. The DSUE amount is the lesser of:

- The basic exclusion amount in effect on the date of death of the decedent whose DSUE is being computed, or
- The decedent's applicable exclusion amount less the amount used for the taxable estate of the decedent.

To make the portability election, the executor must file an estate tax return (Form 706) within nine months of the decedent's date of death, unless an extension of time for filing has been granted. Estates are granted an automatic 6-month filing extension by filing Form 4768, *Application for Extension of Time to File a Return and/or Pay U.S. Estate (and Generation- Skipping Transfer) Taxes.* This rule applies regardless of the size of the gross estate and regardless of whether the predeceased spouse otherwise is required to file an estate tax return. If the executor does not wish to make the portability election, an affirmative statement must be made on the estate tax return signifying the decision to have the portability election not apply. If no estate tax return is required and the executor does not file a return to make the portability election, not filing a timely return will be considered an affirmative statement signifying the decision not to make a portability election. Special rule for estates under the basic exclusion amount. There is a special rule for estates valued under the basic exclusion amount. Executors of estates not otherwise required to file Form 706 (because the value of the gross estate is below the filing requirement) do not have to report the actual value of certain property qualifying for the marital or charitable deduction, but may estimate the value of those assets and include it in the total value of the gross estate based on a good faith determination of the value of the estate's assets.

Final regulations. On June 18, 2012, temporary regulations relating to the portability election were issued by the IRS. The final regulations adopt the temporary regulations, with a few minor adjustments and clarifications. One issue concerning the extension of time for filing when the estate is not otherwise required to file a return was mentioned, but with no answers. In general, if an estate is not otherwise required to file a return, the portability election could be lost due to the surviving spouse not realizing a return must be filed to make the election. Notice 2012-21 provided for a special extension of time for filing for decedents who died after December 31, 2010, and before July 1, 2011. This allowed executors to take advantage of the automatic 6-month filing extension after the normal due date for filing for an extension. The final regulations provide that an extension of time to elect portability will not be granted to any estate that is required to file an estate tax return because the value of the gross estate equals or exceeds the threshold amount for filing a return. However, an extension may be granted to estates with a gross estate value below that threshold amount and thus not otherwise be required to file an estate tax return. The IRS is currently considering a permanent extension of time provision for estates below the filing requirement for purposes of making the portability election. The final regulations do not provide any additional guidance on this issue at this time. The temporary regulations also provided for a special rule in regards to a complete and properly prepared estate tax return. In general, the portability election is not allowed unless a complete and properly prepared estate tax return is prepared.

However, if the estate is otherwise below the filing threshold, the executor does not need to report the actual value of property that qualifies for the marital or charitable deduction. The final regulations adopt the temporary regulations, but say that additional guidance may be issued to reduce the burden and expense of potentially complicated appraisals to value assets includible in the gross estate in cases where the estate return is being filed merely to make the portability election. T.D. 9725, IRC §2001, §2010, and §2505

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IP PIN Program Update: Numbers Must be Entered for All IP PIN Holders

Starting January 1, 2016, the IRS will require the use of Identity Protection PINs for all Social Security numbers with an IP PIN requirement, regardless of whether the SSN is entered for a primary, spouse, or dependent/qualifying individual.

Entry of an IP PIN will be required for any SSN with an IP PIN requirement on the following Forms/Schedules:

Form 1040, Individual Income Tax Return, series

Form 2441, Child and Dependent Care Expenses

Schedule Earned Income Credit.

Failure to include the IP PIN in any of the required fields will result in the return being rejected.

For general information about the IP PIN and how to retrieve a lost IP PIN, review these frequently asked questions.

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Year-end Tax Planning

Year-end planning will be challenging again this year. Unless Congress acts, a number of popular deductions and credits that expired at the end of 2014 won't be available for 2015. Deductions not available this year include, for example, the election to deduct state and local sales taxes instead of state and local income taxes and the above-the-line deductions for tuition and educator expenses, generous bonus depreciation and expensing allowances for business property, and qualified charitable distributions that allow taxpayers over age $70^{1}/_{2}$ to make tax-free transfers from their IRAs directly to charities.

Of course, Congress could revive some or all of the favorable tax rules that have expired like they have done in the past. However, which actions Congress will take and when they will be taken remains to be seen.
Despite the current uncertainties, keeping the line on your taxable income is more important than ever given today's high top tax rates and additional taxes on net investment income. But, keep in mind that effective tax planning requires considering both this year and next year—at least. Without a multiyear outlook, you can't be sure maneuvers intended to save taxes on your 2015 return won't backfire and cost additional money in the future.

Here are a few tax-saving ideas to get you started. As always, you can call on us to help you sort through the options and implement strategies that make sense for you.

Ideas for Increasing Non-business Deductions

Maximize the Benefit of the Standard Deduction. For 2015, the standard deduction is $12,600 for married taxpayers filing joint returns. For single taxpayers, the amount is $6,300. Currently, it looks like these amounts will be about the same for 2016. If your total itemized deductions are normally close to these amounts, you may be able to leverage the benefit of your deductions by bunching deductions in every other year. This allows you to time your itemized deductions so that they are high in one year and low in the next. You claim actual expenses in the year they are bunched and take the standard deduction in the intervening years.
For instance, you might consider moving charitable donations you normally would make in early 2016 to the end of 2015. If you're temporarily short on cash, charge the contribution to a credit card—it is deductible in the year charged, not when payment is made on the card. You can also accelerate payments of your real estate taxes or state income taxes otherwise due in early 2015. However, watch out for the Alternative Minimum Tax (AMT), as these taxes are not deductible for AMT purposes. **Back to Top**

Make Charitable Gifts of Appreciated Stock. If you have appreciated stock (or mutual fund shares) that you've held more than a year and you plan to make significant charitable contributions before year-end, consider keeping your cash and donating the stock instead. You'll avoid paying tax on the appreciation, but will still be able to deduct the donated property's full value. If you want to maintain a position in the donated

securities, you can immediately buy back a like number of shares. (This idea works especially well with no load mutual funds because there are no transaction fees involved.) **Back to Top**

However, if the stock is now worth less than when you acquired it, sell the stock, take the loss, and then give the cash to the charity. If you give the stock to the charity, your charitable deduction will equal the stock's current depressed value and no capital loss will be available. However, if you sell the stock at a loss, you have to wait 31 days to buy it back. Otherwise, you will trigger the wash sale rules, which means your loss won't be deductible, but instead will be added to the basis in the new shares. **Back to Top**

Don't Lose a Charitable Deduction for Lack of Paperwork. Charitable contributions are only deductible if you have proper documentation. For cash contributions of less than $250, this means you must have either a bank record that supports the donation (such as a cancelled check or credit card receipt) or a written statement from the charity that meets tax-law requirements. For cash donations of $250 or more, a bank record is not enough. You must obtain, by the time your tax return is filed, a charity-provided statement that shows the amount of the donation and lists any significant goods or services received in return for the donation (other than intangible religious benefits) or specifically states that you received no goods or services from the charity. **Back to Top**

Ideas for the Office

Maximize Contributions to 401(k) Plans. If you have a 401(k) plan at work, it's just about time to tell your company how much you want to set aside on a tax-free basis for next year. Contribute as much as you can stand, especially if your employer makes matching contributions. You give up "free money" when you fail to participate to the max for the match. **Back to Top**

Adjust Your Income Tax Withholding. If it looks like you are going to owe income taxes for 2015, consider bumping up the income taxes withheld from your paychecks now through the end of the year.

When you file your return, you will have to pay any taxes due less the amount paid in and/or withheld.

However, as long as your total tax payments (estimated payments plus withholdings) equal at least 90% of your 2015 liability or, if smaller, 100% of your 2014 liability (110% if your 2014 adjusted gross income exceeded $150,000; $75,000 for married individuals who filed separate returns), penalties will be minimized, if not eliminated. State requirements vary by state, but generally as long as your total tax payments (estimated payments plus withholdings) equal at least 90% of your 2015 liability or, if smaller, 100% of your 2014 liability, penalties will be minimized, if not eliminated. **Back to Top**

Making the Most of Year-End Securities Transactions

Harvest Capital Losses. There are a number of year-end investment strategies that can help lower your tax bill. Perhaps the simplest is reviewing your securities portfolio for any losers that can be sold before year-end to offset gains you have already recognized this year or to get you to the $3,000 ($1,500 married filing separate) net capital loss that's deductible each year. Don't worry if your net loss for the year exceeds $3,000, because the excess carries over indefinitely to future tax years. Be mindful, however, of the wash sale rule when you jettison losers—your loss is deferred if you purchase substantially identical stock or securities within the period beginning 30 days before and ending 30 days after the sale date. **Back to Top**

Secure a Deduction for Nearly Worthless Securities. If you own any securities that are all but worthless with little hope of recovery, you might consider selling them before the end of the year so you can capitalize on the

loss this year. You can deduct a loss on worthless securities only if you can prove the investment is completely worthless. Thus, a deduction is not available, as long as you own the security and it has any value at all. Total worthlessness can be very difficult to establish with any certainty. To avoid the issue, it may be easier just to sell the security if it has any marketable value. As long as the sale is not to a family member, this allows you to claim a loss for the difference between your tax basis and the proceeds (subject to the normal rules capital loss and wash sale rules previously discussed). **Back to Top**

Ideas for Your Business

Evaluate Inventory for Damaged or Obsolete Items. Inventory is normally valued for tax purposes at cost or the lower of cost or market value. Regardless of which of these methods is used, the end-of-the-year inventory should be reviewed to detect obsolete or damaged items. The carrying cost of any such items may be written down to their probable selling price (net of selling expenses). [This rule does not apply to businesses that use the Last in, First out (LIFO) method because LIFO does not distinguish between goods that have been written down and those that have not, or for small businesses that are not required to track inventory].

To claim a deduction for a write-down of obsolete inventory, you are not required to scrap the item. However, in a period ending not later than 30 days after the inventory date, the item must be actually offered for sale at the price to which the inventory is reduced. **Back to Top**

Set up Tax-Favored Retirement Plan. If your business doesn't already have a retirement plan, now might be the time to take the plunge. Current retirement plan rules allow for significant deductible contributions. Even if your business is only part-time or something you do on the side, contributing to a SEP-IRA or SIMPLE-IRA can enable you to reduce your current tax load while increasing your retirement savings. With a SEP-IRA, you generally can contribute up to 20% of your self-employment earnings, with a maximum contribution of $53,000 for 2015. A SIMPLE-IRA, on the other hand, allows you to set aside up to $12,500 for 2015 plus an employer match that could potentially be the same amount. In addition, if you will be age 50 or older as of year-end, you can contribute an additional $3,000 to a SIMPLE-IRA. If you're age 50 or older as of year-end and your business has no employees, a solo 401(k) can allow for a contribution of up to $59,000. **Back to Top**

Check Your Partnership and S Corporation Stock Basis. If you own an interest in a partnership or S corporation, your ability to deduct any losses it passes through is limited to your basis. Although any unused loss can be carried forward indefinitely, the time value of money diminishes the usefulness of these suspended deductions. Thus, if you expect the partnership or S corporation to generate a loss this year and you lack sufficient basis to claim a full deduction, you may want to make a capital contribution (or in the case of an S corporation, loan it additional funds) before year end. **Back to Top**

Employ Your Child. If you are self-employed, don't miss one last opportunity to employ your child before the end of the year. Doing so has tax benefits in that it shifts income (which is not subject to the Kiddie tax) from you to your child, who normally is in a lower tax bracket or may avoid tax entirely due to the standard deduction. There can also be payroll tax savings since wages paid by sole proprietors to their children age 17 and younger are exempt from both social security and unemployment taxes. Employing your children has the added benefit of providing them with earned income, which enables them to contribute to an IRA. Children with IRAs, particularly Roth IRAs, have a great start on retirement savings since the compounded growth of the funds can be significant.

Remember a couple of things when employing your child. First, the wages paid must be reasonable given the child's age and work skills. Second, if the child is in college, or is entering soon, having too much earned income can have a detrimental impact on the student's need-based financial aid eligibility. **Back to Top**

Review Your Health Insurance Costs and Coverage

Make Sure You Have Adequate Health Insurance Coverage. If you and your family don't have adequate medical coverage (referred to as minimum essential coverage), you may be subject to a penalty. Medical insurance provided by your employer or through an individual plan purchased through a state insurance marketplace generally qualifies for adequate coverage. The penalty amount varies based on the number of uninsured members of your household and your household income. If you have three or more uninsured household members, the penalty may be $975 or more for 2015 ($2,085 or more for 2016), depending on your household income. **Back to Top**

Take Advantage of Flexible Spending Accounts (FSAs). If your company has a healthcare and/or dependent care FSA, before year-end you must specify how much of your 2016 salary to convert into tax-free contributions to the plan. You can then take tax-free withdrawals next year to reimburse yourself for out-of-pocket medical and dental expenses and qualifying dependent care costs. Watch out, though, FSAs are "use-it-or-lose-it" accounts—you don't want to set aside more than what you'll likely have in qualifying expenses for the year.

If you currently have a healthcare FSA, make sure you drain it by incurring eligible expenses before the deadline for this year. Otherwise, you'll lose the remaining balance. It's not that hard to drum some things up: new glasses or contacts, dental work you've been putting off, or prescriptions that can be filled early. **Back to Top**

Consider a Health Savings Account (HSA). If you are enrolled in a high-deductible health plan and don't have any other coverage, you may be eligible to make pre-tax or tax deductible contributions to an HSA of up to $6,650 for a family coverage or $3,350 for individual coverage. Distributions from the HSA will be tax free as long as the funds are used to pay unreimbursed qualified medical expenses. Furthermore, there's no time limit on when you can use your contributions to cover expenses. Unlike a healthcare FSA, amounts remaining in the HSA at the end of the year can be carried over indefinitely. **Back to Top**

Year-End Moves for Seniors Age 70½ Plus

Take Your Required Retirement Distributions. The tax laws generally require individuals with retirement accounts to take withdrawals based on the size of their account and their age beginning with the year they reach age 70½. Failure to take a required withdrawal can result in a penalty of 50% of the amount not withdrawn. If you turned age 70½ in 2015, you can delay your 2015 required distribution to 2016 if you choose. But, waiting until 2016 will result in two distributions in 2016—the amount required for 2015 plus the amount required for 2016. While deferring income is normally a sound tax strategy, here it results in bunching income into 2016. Thus, think twice before delaying your 2015 distribution to 2016—bunching income into 2016 might throw you into a higher tax bracket or bring you above the modified AGI level that will trigger the 3.8% net investment income tax. However, it could be beneficial to take both distributions in 2016 if you expect to be in a substantially lower bracket in 2016. For example, you may wish to delay the 2015 required distribution until 2016 if you plan to retire late this year or early next year, have significant nonrecurring income this year, or expect a business loss next year. **Back to Top**

It May Pay to Wait until the End of the Year to Take Your Required Minimum Distributions. If you plan on making additional charitable contributions this year and you have not yet received your 2015 required distribution from your IRA, you might want to wait until the very end of the year to do both. It is possible that the Congress will bring back the popular Qualified Charitable Distributions (QCDs) that expired at the end of

2014. If so, IRA owners and beneficiaries who have reached age 70½ will be able to make cash donations totaling up to $100,000 to IRS-approved public charities directly out of their IRAs. QCDs are federal-income-tax-free to you and they can qualify as part of your required distribution, but you get no itemized charitable write-off on your Form 1040. That's okay because the tax-free treatment of QCDs equates to an immediate 100% federal income tax deduction without having to itemize your deductions or worry about restrictions that can reduce or delay itemized charitable write-offs. However, to qualify for this special tax break, the funds must be transferred directly from your IRA to the charity. Once you receive the cash, the distribution is not a QCD and won't qualify for this tax break. **Back to Top**

Watch out for Alternative Minimum Tax. Be on the alert for the AMT in all of your planning because what may be a great move for regular tax purposes may create or increase an AMT problem. There's a good chance you'll be hit with AMT if you deduct a significant amount of state and local taxes, claim multiple dependents, exercised incentive stock options, or recognized a large capital gain this year. **Back to Top**

Don't Overlook Estate Planning. For 2015, the unified federal gift and estate tax exemption is a generous $5.43 million, and the federal estate tax rate is a historically reasonable 40%. Even if you already have an estate plan, it may need updating to reflect the current estate and gift tax rules. Also, you may need to make some changes that have nothing to do with taxes. Contact us if you think you could use an estate planning tune-up.
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Conclusion. Through careful planning, it's possible your 2015 tax liability can be significantly reduced, but don't delay. The longer you wait, the less likely it is that you'll be able to achieve a meaningful reduction. The ideas discussed in this letter are a good way to get you started with year-end planning, but they're no substitute for personalized professional assistance. Please don't hesitate to call us with questions or for additional strategies on reducing your tax bill. We'd be glad to set up a planning meeting or assist you in any other way that we can. **Back to Top**

Reference Sheet

Expired Tax Provisions: For a complete list of tax deductions and credits that expired at the end of 2014 see TAM-1744,[1] (date 7/28/15).

Maximize the Benefit of the Standard Deduction. IRC Sec. 63(c).

Make Charitable Gifts of Appreciated Stock. IRC Sec. 170(e)(1).

Don't Lose a Charitable Deduction for Lack of Paperwork. IRC Sec. 170(f)(8).

Maximize Contributions to 401(k) Plans. IRC Sec. 401(k).

Adjust Your Federal Income Tax Withholding. IRC Sec. 6654.

Harvest Capital Losses. IRC Secs. 1(h), 1091, 1211(b), and 1222.

Secure a Deduction for Nearly Worthless Securities. IRC Secs. 165(g)(1), and 267.

Evaluate Inventory for Damaged or Obsolete Items. Reg. 1.471-2(c); Ltr. Rul. 9729001; *Thor Power Tool Co.*, 43 AFTR 2d 79-362, 99 S. Ct. 773 (1979).

Set up Tax-favored Retirement Plan. IRC Secs. 401(k), 404(h), 408(p) and 414(v). Employers must make either matching or nonelective contributions to employee SIMPLE-IRA accounts. Under the matching alternative, employers must generally match

employee contributions on a dollar-for-dollar basis, up to 3% of the employee's compensation for the calendar year. For purposes of the matching contribution, compensation is not limited.

Check Your Partnership and S Corporation Stock Basis. IRC Secs. 704(d), 705, 1366, and 1367.

Employ Your Child. IRC Secs. 408, 408A, 3121(b)(3)(A), and 3306(c)(5).

Make Sure You Have Adequate Health Insurance Coverage. IRC Sec. 5000A; Reg. 1.5000A-1.

Take Advantage of Flexible Spending Accounts (FSAs). IRC Sec. 125.

Consider a Health Savings Account (HSA). IRC Secs. 125(d)(2)(D) and 223. See NTA-914, (dated 7/14/15), for further discussion of HSAs.

Take Your Required Retirement Distributions. IRC Secs. 401(a)(9) and 4974; Reg. 1.401(a)(9)-9.

It May Pay to Wait until the End of the Year to Take Your Distributions. IRC Sec. 408(d)(8).

Watch out for Alternative Minimum Tax. IRC Secs. 55–59. The AMT exemptions for 2015 are—married joint: $83,400; singles and head of household: $53,600; married filing separate: $41,700 The AMT exemptions begin phasing out when Alternative Minimum Taxable Income (AMTI) exceeds $158,900 for joint filers, $119,200 for singles and heads of households, and $79,450 for married separate filers.

Don't Overlook Estate Planning. IRC Secs. 2001, 2010, 2502, 2503, and 2505.

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IMPORTANT HEALTH CARE INSURANCE CHANGES

Employers Cannot Reimburse or Pay Individual Health Care Policies on a Pretax Basis: In recently posted employer healthcare arrangement FAQs, the IRS warns employers about using employer payment plans to reimburse employees on a pretax basis for health insurance premiums the employee pays on an individual policy (either through a qualified health plan in the Marketplace or outside the Marketplace). As explained in Notice 2013-54, these employer payment plans are considered to be group health plans subject to the market reforms, including the prohibition on annual limits for essential health benefits and the requirement to provide certain preventive care without cost sharing. Notice 2013-54 clarifies that such arrangements cannot be integrated with individual policies to satisfy the market reforms. Consequently, such an arrangement fails to satisfy the market reforms and may be subject to a $100/day excise tax per applicable employee (which is $36,500 per year, per employee) under IRC Sec. 4980D. (The term *employer payment plan* generally does not include an arrangement under which an employee has the option of receiving an after-tax premium reimbursement or taking that amount in cash compensation. Thus, employers can reimburse employees for individual policies on an after-tax basis without violating market reforms.) The IRS FAQs can be found at www.irs.gov/uac/Newsroom/Employer-Health-Care-Arrangements. **Back to Top**

Medical Reimbursement Plans (MRP): If employees are getting an MRP reimbursement have a group health insurance policy, whether through your group policy or another employer, then it is business as usual for those employees in regards to the MRP. Employees who have individual health insurance and are not covered by your group plan or their spouse's employer's group plan, cannot get MRP reimbursements. If they do, the employer faces a $100 per day per employee penalty. If you want to keep your MRP because it is an appreciated fringe benefit, but you still want to help the one or two employees with individual health insurance policies, then the best alternative for them is generally a taxable bonus. **Back to Top**

Sub-S Stockholder's Health Insurance Individual Policies: With respect to more-than-2% S shareholders and partners, where prior guidance has directed that health insurance premiums must be paid or reimbursed by the entity, that arrangement generally may continue. For example, under Notice 2008-1, an S corporation shareholder must have the S corporation reimburse the individual premium, report it to the shareholder as compensation on the Form W-2, and then wash that extra income out on page one of the Form 1040 with the self-employed health insurance deduction under IRC Sec. 162(l). These arrangements are not using employer benefit status (the benefit is included in the shareholder's

taxable wages) and should be permissible going forward. However, these arrangements have been exempt from FICA in the past; that does not appear to be permissible going forward because FICA-free status requires an employer health plan under IRC Sec. 3121(a)(2) . Accordingly, **for the 2014 tax year and after, the premium reimbursement should be reported as taxable wages for both income tax and Social Security tax purposes (in order to avoid the $100 per employee/day penalty).** Back to Top

Not Reconciling Advance Premium Tax Credits Could Result in Lost Eligibility: Individuals, who received advance payments of Premium Tax Credits (PTCs) from the Marketplace, must file Form 1040 and attach a Form 8962 [Premium Tax Credit (PTC)] reconciling the advance PTC received to the actual PTC even if not otherwise required to file. In a recent "Update on Health Care and the 2014 Tax Season" report, federal officials indicate, in addition to taxpayers who have yet to file, more than 760,000 households filed their 2014 individual returns without the required Form 8962 reconciling the advance payments. The officials note that there is still time to act, but taxpayers who do not file a return and reconcile the PTCs received last year will not be eligible for PTCs when they renew coverage for 2016. See www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2015-Fact-sheets-items/2015-07-17.html Back to Top

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Cost of Living and Other Dollar Limitations

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
IRA Contribution Limit (IRC Sec 219(b)(5)(A))	5,500	5,500	5,500	5,000	5,000	5,000	5,000	5,000	4,000	4,000	4,000	3,000	3,000	3,000	2,000	2,000
IRA 50 & Over Catch-up Contribution	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	500	500	500	500	0	0
401(k), 401(b), 457 Deferral Limit	18,000	17,500	17,500	17,000	16,500	16,500	16,500	15,500	15,500	15,000	14,000	13,000	12,000	11,000	10,500	10,500
401(k), 403(b), 457 50 & Over Catch-up Contribution	6,000	5,500	5,500	5,500	5,500	5,500	5,500	5,000	5,000	5,000	4,000	3,000	2,000	1,000	0	0
SIMPLE Deferral limit	12,500	12,000	12,000	11,500	11,500	11,500	11,500	10,500	10,500	10,000	10,000	9,000	8,000	7,000	6,500	6,000
SIMPLE 50 & Over Catch-up Contribution	3,000	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,000	1,500	1,000	500	0	0
Defined Contribution IRC Sec 415 limit	53,000	52,000	51,000	50,000	49,000	49,000	49,000	46,000	45,000	44,000	42,000	41,000	40,000	40,000	35,000	30,000
Annual Compensation limit	265,000	260,000	255,000	250,000	245,000	245,000	245,000	230,000	225,000	220,000	210,000	205,000	200,000	200,000	170,000	170,000
Compensation limit for SEP eligibility	600	550	550	550	550	550	550	500	500	450	450	450	450	450	450	450
IRC Section 179	25,000	500,000	500,000	500,000	500,000	500,000	250,000	250,000	125,000	108,000	105,000	102,000	100,000	24,000	24,000	20,000
IRC Section 179 Qualified Leasehold Improvements	0	250,000	250,000	250,000	250,000	250,000										
Sec 179 Reduction	200,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	800,000	800,000	500,000	430,000	420,000	410,000	400,000	200,000	200,000	200,000
Estate Tax Exclusion	5,430,000	5,340,000	5,250,000	5,120,000	5,000,000	N/A	3,500,000	2,000,000	2,000,000	2,000,000	1,500,000	1,500,000	1,000,000	1,000,000	675,000	675,000
Gift Tax Exemption	14,000	14,000	14,000	13,000	13,000	13,000	13,000	12,000	12,000	12,000	11,000	11,000	11,000	11,000	10,000	10,000
Self-employed health ins. AGI deduction	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	70%	60%	60%
Personal Exemption	4,000	3,950	3,900	3,800	3,700	3,650	3,650	3,500	3,400	3,300	3,200	3,100	3,050	3,000	2,900	2,800
Standard Deduction:																
Married Filing Jointly or Qualifying Surviving Spouse	12,600	12,400	12,200	11,900	11,600	11,400	11,400	10,900	10,700	10,300	10,000	9,700	7,950	7,850	7,600	7,350
Head of Household	9,250	9,100	8,950	8,700	8,500	8,400	8,350	8,000	7,850	7,850	7,300	7,150	7,000	6,900	6,650	6,450
Unmarried (Single)	6,300	6,200	6,100	5,950	5,800	5,700	5,700	5,450	5,350	5,150	5,000	4,850	4,750	4,700	4,550	4,400
Married Filing Separately	6,300	6,200	6,100	5,950	5,800	5,700	5,700	5,450	5,350	5,150	5,000	4,850	3,975	3,925	3,800	3,675
Add'l for aged or blind (Single & HOH)	1,550	1,550	1,500	1,450	1,450	1,400	1,400	1,350	1,300	1,250	1,250	1,200	1,150	1,150	1,100	1,100
Add'l for aged or blind (MFJ, MFS, QSS)	1,250	1,200	1,200	1,150	1,150	1,100	1,100	1,050	1,050	1,000	1,000	950	950	900	900	850
Dependent:																
Minimum	1,050	1,000	1,000	950	950	950	950	900	850	850	800	800	750	750	750	700
Earned Income Plus	350	350	350	300	300	300	300	300	300	300	250	250	250	250	250	250
Maximum	6,300	6,200	6,100	5,950	5,800	5,700	5,700	5,450	5,350	5,150	5,000	4,850	4,750	4,700	4,550	4,400
Health Savings Account-Self Only Coverage	3,350	3,300	3,250	3,100	3,050	3,050	3,000	2,900	2,850	2,700	2,650	N/A	N/A	N/A	N/A	N/A
Health Savings Account-Family Coverage	6,650	6,550	6,450	6,250	6,150	6,150	5,950	5,800	5,650	5,450	5,250	N/A	N/A	N/A	N/A	N/A
Additional for taxpayers 55-65	1,000	1,000	1,000	1,000	1,000	1,000	1,000	900								
Social Security (OADSI) Wage Base	118,500	117,000	113,700	110,100	106,800	106,800	106,800	102,000	97,500	94,200	90,000	87,900	87,000	84,900	80,400	76,200
Maximum Social Security Tax	7,347.00	7,254.00	7,049.40	4,624.20	4,485.60	6,621.60	6,621.60	6,324.00	6,045.00	5,840.40	5,580.00	5,449.80	5,394.00	5,263.80	4,984.80	4,724.40
Under Full Retirement Age Maximum Annual Earnings	15,720	15,480	15,120	14,640	14,160	14,160	14,160	13,560	12,960	12,480	12,000	11,640	11,520	11,280	10,680	10,080
Earnings required for 4 quarters' credit	4,880	4,800	4,640	4,520	4,480	4,480	4,360	4,200	4,000	3,880	3,680	3,600	3,560	3,480	3,320	3,120
Domestic Employees coverage threshold	1,900	1,900	1,800	1,800	1,700	1,700	1,700	1,600	1,500	1,500	1,400	1,400	1,400	1,300	1,300	1,200
Standard Mileage Rates																
Business mileage rate	0.575	0.560	0.565	0.555	0.510	0.500	0.550	0.505	0.485	0.445	0.405	0.375	0.360	0.365	0.345	0.325
Medical & Moving mileage rate	0.230	0.235	0.240	0.230	0.190	0.165	0.240	0.190	0.200	0.180	0.150	0.140	0.120	0.130	0.120	0.100
Charitable mileage rate	0.140	0.140	0.140	0.140	0.140	0.140	0.140	0.140	0.140	0.140	0.140	0.140	0.140	0.140	0.140	0.140
Hurricane Katrina relief services										0.320	0.290					
Mid-Year Adjustment					7/1-12/31/11			7/1-12/31/08			9/1-12/31/05					
Business mileage rate					0.555			0.585			0.485					
Medical & Moving mileage rate					0.235			0.270			0.220					
Charitable mileage rate					0.140			0.140			0.140					
Hurricane Katrina relief services											0.340					
1st Year depreciation limits:																
Passenger Autos	3,160	3,160	3,160	3,160	3,060	3,060	2,960	2,960	3,060	2,960	2,960	10,610	3,060	3,060	3,060	3,060
Special Bonus Depreciation	0	0	11,160	8,000	8,000	8,000	8,000	8,000					4,600			
Trucks & Vans under 6,000 unloaded GVW	3,460	3,460	3,360	3,360	3,260	3,160	3,060	3,160	3,260	3,260	3,260	10,910	3,360			
Special Bonus Depreciation	0	0	11,360	8,000	8,000	8,000	8,000	8,000					4,600			
Vehicles over 6,000 unloaded GVW																
Sec 179 Limit	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	102,000	100,000			
100% Bonus Depreciation (9/8/10-12/31/11)				n/a	no limit											
													See Note 1			

Note 1: higher limits apply for 5/6/03 to 12/31/03 than shown

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