

# TaxUpdate

2016 MID-YEAR NEWSLETTER

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**Finally!** Many temporary tax provisions have been made permanent. Other tax provisions have been extended through 2016. Because of these vast tax law changes, perhaps a planning session is in order to reduce your potential tax liability.

## Tax Planning More Important Than Ever

The passage of another extensive tax bill in late 2015 brings numerous changes in tax law that run through 2016 and beyond. Add changes already built into the tax code and you have a tax year that requires attention from virtually every taxpayer to ensure you do not pay taxes that are not required. Here are some key items that may warrant a review of your situation.



**1 Permanence in oft-extended tax laws.** Thankfully you now have the ability to plan on tax law certainty as the following laws are now a permanent part of our tax code.

- \$250 Educators expense deduction.
- State sales tax as an optional itemized deduction versus taking a state income tax deduction.
- Ability for seniors to donate up to \$100,000 from a qualified retirement plan to a charitable organization.
- Ability to use the American Opportunity Tax Credit for four versus two years.

*Planning action: If you are a teacher, have a student in college, have no state income tax, plan to make major purchases, or wish to avoid retirement income tax then consider a planning session.*

*Planning action: If you have students, have mortgage insurance, or have a home with debt higher than appraised value you may wish to create a plan for your situation.*

**2 Take advantage of expiring tax rules.** The following tax laws expire at the end of 2016. Plan now to take advantage of these soon to expire tax provisions.

- \$4,000 Tuition and Fees Deduction
- Tax-advantaged debt forgiveness for certain home mortgages
- Deductibility of home mortgage insurance premiums

**3 Health insurance changes.** If you do not have health insurance, every month you delay in obtaining this insurance could create a meaningful tax penalty.

**4 Review of your withholdings.** After receiving your prior-year tax return, consider adjusting your withholdings to ensure you do not experience an underpayment penalty. The timing of your payments plays an important role in minimizing this penalty.



## 2016 Estate and Gift Limits

In 2016, the annual Gift Tax limit is \$14,000 (\$28,000 for a married filing joint). You can provide gifts of up to this amount to any individual without tax consequences. By using this limit wisely you minimize future potential estate tax liability.

The Estate Tax Exemption for 2016 is

\$5,450,000 with a maximum estate tax rate of 40%.

These areas tend to hit the tax agenda of both political parties so they could be subject to change in the future. Creating plans to manage both your gifts and potential estate tax could be worth your while.

## Now Obtain Copies of Fraudulent Returns

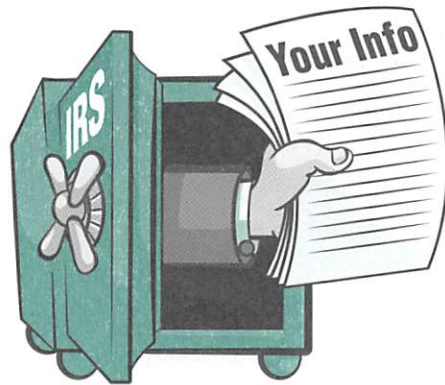
Unfortunately this past tax season did not go well for those taxpayers impacted by the vast IRS identity theft problem. If you experience the theft of your tax information there is now a way for you to see what the thieves tried to do to your IRS tax records.

### The frustration

Many taxpayers have tried to get copies of their fraudulently filed tax returns. The IRS has repeatedly refused freedom of information requests to get copies of these falsely filed returns.

### What's new?

In a recent announcement, the IRS has changed course on information requests for fraudulently filed tax returns. As long as you follow their instructions, you are now able to get copies of what thieves attempted to do with your tax information. But be forewarned. The IRS may black out information on the requested return. They will try to present you with enough of the bad tax return to allow you to determine the depth of the data that has been stolen.



### Why the theft information may be important

**You can see what personal information the thieves have.** What has been compromised? Name, address, and Social Security Number? Do they have your dependent's information? Your spouse's? Perhaps they also have your income and withholding data. Knowing this will help you plan the extent of data protection you will need.

**There may be clues as to where the identity theft occurred.** Of the

information stolen, who had access to it? Did the data breach of your identity happen through the IRS or somewhere else?

**There may be more tax years impacted than you thought.** Request information from the year you first became aware of the identity theft at the IRS. But you may wish to request information in a prior year and in the year following the theft. The IRS has access to up to six years of tax returns. Determine whether the theft is ongoing or a one-time occurrence.

Your request requires specific information. Here is a link to the IRS information regarding their recent announcement. <https://www.irs.gov/Individuals/Instructions-for-Requesting-Copy-of-Fraudulent>Returns>

Thankfully, the IRS' recent decision to share this fraudulent information is allowing victims to take some action to protect themselves. Please call if you need assistance.

## Haven't Filed? Perhaps You Should

If you have not filed a 2015 tax return please read this. It is important to understand the need to file a tax return, even if you do not think one is necessary. Consider filing a tax return in any of these situations.



**You want withholdings returned to you.** Always file a tax return if an employer or other payer withheld taxes from your pay. It is the only way you will receive them back from the federal government.

**You wish to qualify for the Premium Tax Credit.** This tax credit helps reduce the cost of health insurance for those who purchase their insurance through the new health insurance marketplace. Without a filed tax return you cannot have the Premium Health Credit applied towards your monthly premiums. In fact, non-filing could limit your ability to receive this credit in future tax years as the IRS continues to

place controls on the payment of this credit.

**Receive refunds from refundable tax credits.** There are certain tax credits that will provide refunds even if you do not owe income tax. The most common of these is the Earned Income Tax Credit.

**You wish to close the potential of an IRS audit.** The IRS typically has three years to audit a filed tax return. If no tax return is filed, this audit timeline is never closed.

**You are applying for financial aid or loans.** Banks and colleges will

often use tax return information to qualify you for loans and financial aid. This filing information can then be provided if requested.

**You are filing a final tax return for a loved one.** The IRS will eventually receive death information through the Social Security Administration. By filing a final tax return, you can put the breaks on unwanted communication from the IRS as they wait for this confirmation from Social Security.

**You wish to protect against someone else filing a tax return.** With the vast increase in identity theft from the IRS, filing a tax return can close the door on would-be thieves. Your filed tax return can block attempts by someone else who files a second tax return with fake information.

Remember there is not a penalty for filing late if you owe no income tax.