# TaxTips

Keeping You Informed • Summer 2016

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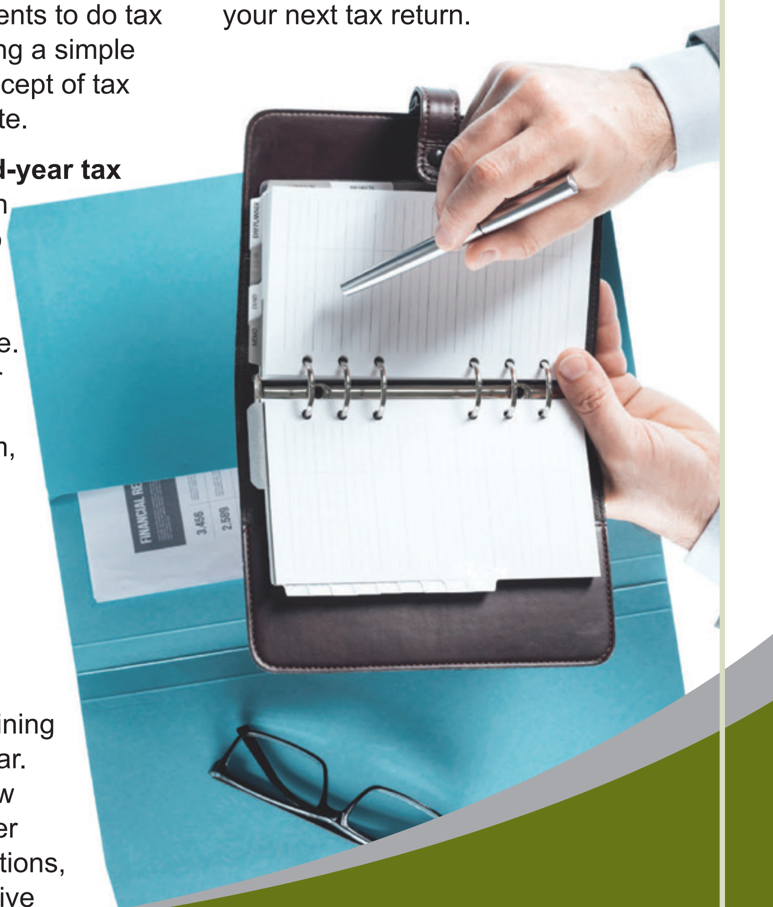
## Mid-Year Tax Planning

In order to encourage clients to become more proactive about their finances, we plan to begin emphasizing tax planning for everyone. The tax form serves as a great springboard for implementing tax planning strategies. A good tax preparer can literally go through the form line-by-line and highlight tax consequences for the client, prompting a more in-depth discussion of ways to realize tax savings. In addition there's also the need for multi-year planning to maximize tax efficiencies over a lifetime for clients who are trying to build wealth for themselves and their loved ones. As your tax preparer, we already work with much of the information needed to provide a valuable service for those who want to legally keep the maximum amount of money in their own pockets rather than paying it to the government in taxes.

Tax planning begins with tax preparation, but tax planning is much more comprehensive than just putting the right numbers on the proper tax form. Tax planning involves looking ahead to make decisions with a long range outlook rather than just trying to deal with the tax consequences after the fact. Many clients think that tax planning has to be a long drawn out complicated affair. And to be honest, tax planning can sometimes become a little involved, but it doesn't always have to be complicated. So in order to encourage more clients to do tax planning we are offering a simple introduction to the concept of tax planning on our website.

We have placed a **mid-year tax planning checklist** on our website in order to offer each of our clients access to this comprehensive service. Simply navigate to our website at www.taxonwheels.com, find the **"Resources"** tab at the top of the page and hover your mouse over the **"Resources"** tab and then click on Mid-year tax planning checklist. A pdf document containing the checklist will appear. Simply print and review the form. If you answer yes to any of the questions, you should probably give us a call right away so that we can be proactive about your tax planning in order to minimize your tax liability on your next tax return. Now, isn't that simple enough! We are looking forward to speaking to each of you in the near future about your next tax return.



## IRS Notices

*If you receive one, don't panic*

Receiving a notice from the IRS might cause instant panic, but there is typically no reason to alarm yourself. Following are a few reasons why the IRS might send you a notice:

- You have a balance due.
- You are due a larger or smaller refund.
- There is a question about your tax return.
- Your identity needs to be verified.
- The IRS needs additional information.
- Your return has been changed.
- There are delays in processing your return.

Generally, the IRS issues notices to request payment of taxes or additional information. Each notice offers specific instructions on what you need to do to satisfy the inquiry. To avoid any possible interest and penalty charges, you'll want to be sure to respond to any inquiry quickly and pay as much of any amount due as possible.

Receiving a notice doesn't necessarily mean you did something wrong, but the worst thing you could do is ignore it. Instead, contact me right away to review the correspondence and, if necessary, respond to the inquiry. In most cases, the IRS requires a response within 30 or 60 days.

And beware of scams, which continue to be on the rise. These include mail, email and phone scams. Keep in mind that the IRS sends notices and letters by mail only, so if you receive a call or email from someone claiming to be from the IRS, it's more than likely part of a scam. If you receive a piece of mail from someone claiming to be from the IRS, be sure to bring it to me so I can verify its legitimacy before taking action.

## Requirement for Health Insurance

*Avoid penalties for not having minimum essential coverage*

To avoid a penalty for not having health insurance, you must be enrolled in a plan that qualifies as minimum essential coverage (MEC). You won't be subject to a penalty as long as you have coverage under any of the following:

- A health plan bought through the Health Insurance Marketplace.
- An individual health plan bought outside the Health Insurance Marketplace, if it meets the standard for qualified health plans.
- A "grandfathered" individual insurance plan you've had since March 23, 2010, or earlier.
- A job-based plan, including a retiree plan and COBRA coverage.
- Medicare Part A or Part C (Part B coverage by itself doesn't qualify).
- Most Medicaid coverage, except for limited coverage plans.
- The Children's Health Insurance Program (CHIP).
- A parent's plan.
- A student health plan (check with your school to see if the plan counts as minimum essential coverage).
- A health care plan for Peace Corps volunteers.
- A health care plan through the Department of Veterans Affairs.
- Most TRICARE plans.
- Department of Defense Nonappropriated Fund Health Benefits Program.
- Refugee Medical Assistance.
- State high-risk pools for plan or policy years that started on or before December 31, 2014 (check with your high-risk pool plan to see if it qualifies as minimum essential coverage).

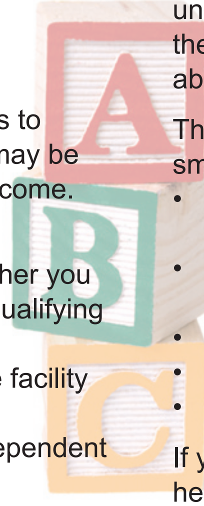
If you don't have MEC, you are required to pay a fee called the individual shared responsibility payment for being uninsured. Examples of health plans that don't count as coverage include:

- Coverage only for vision care or dental care.
- Workers' compensation.
- Coverage only for a specific disease or condition.
- Plans that offer discounts on medical services.

You'll owe the shared responsibility payment for any month you, your spouse or your tax dependent don't have health insurance that qualifies as MEC. This fee will be paid when you file your federal tax return for the year you don't have coverage.

## Using Dependent Care Benefits for Day Care Expenses

*A closer look at exclusions and deductions*



Some employers offer dependent care benefits to employees. If you receive such benefits, you may be able to exclude all or part of them from your income.

Dependent care benefits include:

- Amounts your employer paid directly to either you or your care provider for the care of your qualifying person while you work.
- The fair market value or care in a day care facility provided or sponsored by your employer.
- Pre-tax contributions you made under a dependent care flexible spending arrangement.

If your employer provides dependent care benefits under a qualified plan, you may be able to exclude these benefits from your income. Your employer will be able to tell you whether your benefit plan qualifies.

The amount you can exclude or deduct is limited to the smallest of:

- The total amount of dependent care benefits you received during the year.
- The total amount of qualified expenses you incurred during the year.
- Your earned income.
- Your spouse's earned income.
- $5,000 ($2,500 if married filing separately).

If you are eligible to claim this exclusion, I'd be glad to help you with it.

## Quick Tips

1. The standard deduction remains at $6,300 for singles and married persons filing separate returns and $12,600 for married couples filing jointly. The standard deduction for heads of household rises to $9,300.
2. The limitation for claiming itemized deductions on 2016 individual returns begins with incomes of $259,400 or more ($311,300 for married filing jointly; $285,350 for heads of household; and $155,650 for married filing separately).
3. The personal exemption for tax year 2016 rises to $4,050, up from $4,000 for tax year 2015.
4. The annual exclusion for gifts remains at $14,000 for 2016.
5. For 2016, the maximum earned income credit is $506 for taxpayers with no children; $3,373 for taxpayers with one child; $5,572 for taxpayers with two children; and $6,269 for taxpayers with three or more children.
6. The standard mileage rate for medical and moving purposes decreased to 19¢ per mile for 2016.

## Deducting Business Travel Expenses

*Good recordkeeping is crucial*

When traveling from home overnight for business, it's wise to keep track of all expenses you incur, because they may be deductible.

Deductible travel expenses generally include, but are not limited to the costs of:

- Travel by airplane, train, bus or car between your home and your business destination.
- Fares for taxis or other types of transportation between the airport or train station and your hotel, the hotel and the work location and from one customer to another, or from one place of business to another.
- Shipping of baggage and tradeshow material between your regular and temporary work locations.
- Meals and lodging.
- Using your car while at your business destination. You can deduct either actual expenses or the standard mileage rate, but you must make this choice during the first year of using your car for business; after that, there are restrictions on choosing a method. You can also deduct business-related tolls and parking fees. If you rent a car, you can deduct only the business-use portion for the expenses.
- Dry cleaning and laundry.
- Business calls while on your business trip.
- Tips you pay for services related to any of these expenses.
- Other similar ordinary and necessary expenses related to your business travel.

Instead of keeping records of your meal expenses and deducting the actual cost, you can generally use a standard meal allowance, which varies depending on where you travel. The deduction for business meals is generally limited to 50% of the unreimbursed cost.

For all employees, allowable travel expenses will be figured on Form 2106 or Form 2106-EZ. The allowable expenses are then carried to Form 1040, Schedule A. In order to successfully deduct business travel expenses, the deductions must exceed 2% of your adjusted gross income.

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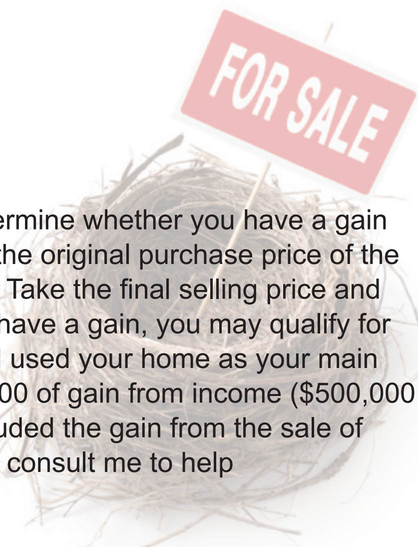


## Determining Home Sale Gain

*Something to keep in mind when planning to sell*

Planning on selling your home? On top of packing and cleaning, you'll need to determine whether you have a gain on the sale of your home. To do this, you must figure out your adjusted basis (i.e., the original purchase price of the residence, purchase expenses, improvements, additions, assessments and more). Take the final selling price and reduce it by your adjusted basis to calculate your gain or loss from the sale. If you have a gain, you may qualify for an exclusion of income for all or part of the gain. In general, if you have owned and used your home as your main residence for two out of the last five years, you are eligible to exclude up to $250,000 of gain from income ($500,000 for married taxpayers filing jointly). You are not eligible for the exclusion if you excluded the gain from the sale of another home during the two-year period prior to the sale of your home. Be sure to consult me to help determine the items that may affect your home's adjusted basis.

## New Telephone System

During the early weeks of summer we were forced to install a new telephone system in the office.  Yes, friends and neighbors we have gone over to the dark side.  We abandoned our old fashioned copper telephone line and installed VOIP based telephony in our office.  For those unfamiliar with the technology, VOIP uses your internet connection to connect your telephone calls.  VOIP usually has much better sound quality than a copper based land line.  It also provides some really cool new features that we are learning to utilize.

We resisted this conversion to VOIP for many years for various reasons.  But one by one those reasons eliminated themselves.  All it took to convince us it was time to make the switch was a not so gentle nudge from the telephone company as they begin to abandon the old fashioned land lines. Those of you who still have a land line should start evaluating your options because I predict land lines won't be around in a few years.  There simply won't be enough people using land lines to justify the expense of maintaining that system as more and more people switch to alternatives such as cell phones.

All of that to say this, although we tried to be as careful as possible with the transition, the truth of the matter is we simply were not fully in control of the process.  We noticed deterioration in our old land line service around the first of May 2016.  We completed the transition to the new phone system around the middle of July 2016. Between those times phone calls and messages may or may not have reached us appropriately.  So if you tried to contact us between those dates and we did not respond to your call we apologize and ask that you attempt to reach us again.  Hopefully all of your calls will reach us going forward.  Also, remember that we may also be reached via email at taxonwheels@att.net. Thank you for your patience and understanding.