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Subject: 2015/2016 Tax Update

Dear Clients and Friends,

## CONSOLIDATED APPROPRIATIONS ACT, 2016 PROVIDES MORE CERTAINTY AS CONGRESS EXTENDS TAX BREAKS

Congress just approved extensions of a large number of tax breaks previously scheduled to expire for 2015. Several now have permanent extensions and include modifications, some were extended five years through 2019, and others have been extended for 2015 and 2016 only.

### SAMPLE OF EXTENDED TAX INCENTIVES

PERMANENT EXTENDERS include Child Tax Credit; American Opportunity Tax Credit; Enhanced Earned Income Credit; limited deduction for certain state and local general sales tax deduction in lieu of state and local income tax deduction; limited deduction for certain expenses of elementary and secondary classroom teachers (to \$250 indexed for inflation beginning 2016); modified exclusions for employer paid parking and transit expenses (\$250 each in 2015; \$255 in 2016); charitable deductions of qualified donations of capital gain real property for conservation; allowing taxpayers at least 70-1/2 years old to make up to \$100,000 in charitable contributions from IRAs without including the distributions in income; increased \$500,000 expensing limit for section 179 business property placed in service beginning 2015 with \$2,000,000 inflation adjusted phase-out threshold with air conditioning and heating unit costs eligible beginning in 2016; S corporations may reduce basis of stock by basis in donated property (vs. fair market value); R&D tax credit with credit against AMT tax for businesses with no more than \$50,000,000 gross receipts beginning in 2016 with certain entities eligible to claim credit against payroll taxes; employer wage credit of up to 20% of eligible differential wage payments to eligible employees while serving on active duty in uniformed services; 15-year straight-line expensing of qualified leasehold, restaurant and retail improvement property; reduced built-in gains tax recognition by S corporations to five years; and 100% gain exclusion for qualified small business stock is made permanent.

FIVE-YEAR EXTENSIONS THROUGH 2019 include 50% bonus depreciation of adjusted basis of qualifying business property in the first year it is placed in service (phased down to 40% in 2018 and 30% in 2019), now including "qualified improvement property" and certain trees, vines and fruit bearing plants eligible when planted or grafted, and modifying AMT rules to increase unused credits claimed in lieu of bonus depreciation; Work Opportunity Credit (WOTC) for employers hiring qualified veterans and employees from other targeted groups approved in advance and modifies the credit to apply to all employers hiring qualified employees who have been unemployed for at least 27 weeks while increasing the credit to 40% of the first \$6,000 of wages; and the new markets tax credit for investments in businesses or real estate in low income communities.

TWO-YEAR EXTENSION WAS APPROVED THROUGH 2016 for: gross income exclusion of qualified indebtedness income from a qualified principal residence; deduction of qualifying mortgage insurance premiums as qualified residence interest for taxpayers below limited income thresholds; and expensing up to \$4,000 tuition paid "above the line" for taxpayers within limited income ranges (see information in "Education Credits" section below) for individuals. A multitude of specialized business and energy tax incentives were extended for two years through 2016.

**CONTINUING TAX CONSIDERATIONS**

**Foreign Account and Income Reporting:**

Foreign accounts valued at \$10,000 or more in the year at any time in 2015 **must be reported by June 30, 2016, online at [www.fincen.gov](http://www.fincen.gov)**; Foreign bank account report FinCEN Form 114. I suggest that you do so much earlier since no extension is available and penalty is large. **If required to file you must state so on your tax return Schedule B, where you must affirm whether you have an interest in a foreign account or trust.** The reporting deadline for 2016 will be April 15, 2017, with extension available to October 15, 2017.

Additionally, there is an income tax Form 8938, required for reporting specified foreign financial interests on your tax return. Threshold fair market value totals for that reporting to the IRS on your tax return are:

	<u>FMV at year-end</u>	<u>or FMV at anytime during the year</u>
Single/married filing separately	\$ 50,000	\$ 75,000
Married filing jointly	\$100,000	\$150,000
Single/married filing separately living abroad	\$200,000	\$300,000
Married filing jointly living abroad	\$400,000	\$600,000

In addition to penalties for not reporting foreign income earned, there are most egregious penalty levels assessed for not reporting foreign accounts or financial interests or filing required forms on time, annually. Willful violation penalty is the greater of \$100,000 or 50% of account value. Otherwise, penalty is \$10,000.

**HealthCare Coverage Responsibility:**

For the second year, **all non-exempt individuals must have health insurance coverage or make a penalty payment with their tax return.** Taxpayers having qualifying health care coverage (called minimal essential coverage) in every month in 2015 for themselves and anyone they could or did claim as a dependent need only check the return box indicating that. Otherwise Form 8965 (Health Coverage Exemptions) must be filed to claim a coverage exemption. If not entitled, there is an instruction worksheet for Form 8965 (Shared Responsibility Payment Worksheet) to compute the penalty to be reported on Form 1040 line 61. Non-exempt members of the household not having minimum essential coverage face potential annual payment for 2015 to the greater of:

- 1) 2% (2.5% after 2015) of household income that is above the tax return filing threshold for the taxpayer's status or;
- 2) A flat dollar amount of \$325 per family member for 2015 (\$695 for 2016) limited to a family maximum of three times the flat dollar amount.

However, the payment is capped at cost of the national average premium for a bronze level health plan available through the Marketplace ([www.Healthcare.gov](http://www.Healthcare.gov)): \$207 per individual per month or \$2,484 per individual per year (\$1,035 per month for a shared responsibility family of five or more members). Taxpayers will owe 1/12 of the annual payment for each month they or other household members don't have coverage or an exemption. Coverage for even a day within a month qualifies as coverage that month.

**HealthCare Coverage Responsibility** (continued):

**Exemptions include** individuals who have no affordable options because the minimum amount to be paid for annual premiums exceeds 8% of household income, have a gap in coverage of less than three consecutive months, or qualifies for exemption for one of several other reasons including having a hardship which prevents obtaining coverage or belonging to a group exempt from coverage.

**Advanced premium tax credits** are reported by recipients to reconcile eligibility on Form 8962, with excess premium credits carried to line 46 on Form 1040 for repayment.

**Achieving a Better Life Experience (ABLE) Act of 2014:**

**A Sec. 529 "ABLE" account may be established for tax years after 2014 with a qualified ABLE program established by a State or agency or instrumentality thereof to accept limited contributions from individuals and family members for a designated disabled beneficiary who is properly certified by the State as becoming disabled before age 26 for the purpose of their support with payment of qualified expenses.** It is meant to supplement, not supplant, insurance, Medicaid, SSI, the beneficiary's employment or other sources and is exempt from taxation (except unrelated business income tax). Total contributions must be limited to the annual gift tax exclusion for the year. Rollover provisions, taxes and penalties on unqualified distributions will be similar to Sec. 529 education accounts, and accounts include reporting provisions.

**Tax Rates, Deductions and Limits**

See the following tax rates, deductions and limits below for 2015 and 2016, listing some provisions of common interest. Please consult for applicability in your circumstances.

<u>Mileage Rates:</u>	<u>2015</u>	<u>2016</u>
Business Auto Use	57.5 cents/mi.	54 cents/mi.
Amount of bus. mileage rate treated as depreciation	24 cents/mi.	24 cents/mi.
Medical and Moving Use	23 cents/mi.	19 cents/mi.
Charitable use	14 cents/mi.	14 cents/mi.
<u>Estate and Gift Tax Unified Exclusion:</u>	\$5,430,000	\$5,450,000
Highest rate	40% (at \$1,000,000)	40% (at \$1,000,000)
<u>Annual Taxable Non-Spouse Gift Exclusion/per donee</u>	\$ 14,000	\$ 14,000
With maximum annual exclusion to non-U.S. citizen spouse:	\$ 147,000	\$ 148,000
And unlimited exclusion to U.S. citizen spouse		
<u>Social Security (for 2015 and 2016):</u>		
FICA Taxable Wage Base (no limit on Medicare tax)	\$ 118,500	\$ 118,500
Maximum earnings to still receive Full Retirement Benefit:		
Under Full Retirement Age (FRA)		
(\$1 benefit withheld for each \$2 above)	\$ 15,720	\$ 15,720
Year FRA attained to month FRA reached	\$ 41,880	\$ 41,880
Earnings limit after FRA	No Limit	No Limit
Earnings needed to earn credit for one quarter of coverage	\$ 1,220	\$ 1,260
Maximum of four credits a year	\$ 4,880	\$ 5,040
Cost of Living Adjustment	1.7%	0%

**Tax Rates, Deductions and Limits** (continued)

	<u>2015</u>	<u>2016</u>
<b><u>Kiddie Tax on unearned income at parent's highest rate</u></b> (1 <sup>st</sup> \$1,050 exempt; 2 <sup>nd</sup> \$1,050 at child's rate)	\$ 2,100	\$ 2,100
<b><u>Child Tax Credit</u></b>	\$ 1,000	\$ 1,000
Modified AGI phase-out begins:		
Married filing jointly	\$ 110,000	\$ 110,000
Married filing separately	\$ 55,000	\$ 55,000
All others	\$ 75,000	\$ 75,000
(credit is refundable for taxpayers with more than \$3,000 of earned income)		
<b><u>IRA:</u></b>		
Base Contribution	\$ 5,500	\$ 5,500
Age 50 Catch Up Contribution	\$ 1,000	\$ 1,000
<b><u>Deductible IRA Phase-out:</u></b>		
Joint Filer-plan participant	\$ 98,000-\$118,000	\$ 98,000-\$118,000
Joint Filer-not a plan participant married to a plan participant	\$183,000-\$193,000	\$184,000-\$194,000
Single/HOH plan participant	\$ 61,000-\$71,000	\$ 61,000-\$71,000
MFS-lived with spouse during the year	\$ 0-\$10,000	\$0-\$10,000
<b><u>Roth IRA Phase-out:</u></b>		
Married Filing Jointly	\$183,000-\$193,000	\$184,000-\$194,000
Single/HOH	\$116,000-\$131,000	\$117,000-\$132,000
Married Filing Separately	\$ 0-\$10,000	\$0-\$10,000
<b><u>Important note of new rollover restriction - only one rollover in any 12-month period from any IRA account of taxpayer (may do multiple direct transfers, however.)</u></b>		
<b><u>Simple IRA:</u></b>		
	<u>2015</u>	<u>2016</u>
Base Contribution	\$ 12,500	\$ 12,500
Age 50 Catch-Up	\$ 3,000	\$ 3,000
<b><u>401(k), 403(b), and 457 Plans:</u></b>		
Base Contribution	\$ 18,000	\$ 18,000
Age 50 Catch-Up	\$ 6,000	\$ 6,000
<b>Profit-Sharing Plan/SEP Contribution Limit</b>	\$ 53,000	\$ 53,000
<b>Annual Compensation Limit for Profit-Sharing and SEP Contributions</b>	\$ 265,000	\$ 265,000
<b>Defined Benefit Plan Annual Contribution Limit</b>	\$ 210,000	\$ 210,000
<b><u>Retirement "saver's credit" up to 50% of \$2,000 of contributions of lower income taxpayers depending on AGI level and filing status (see last item in chart)</u></b>		
<b><u>Personal Exemptions</u></b> (none for dependent child claimed by parent)		
	\$ 4,000	\$ 4,050
<b><u>Personal Exemption Phase-Out (PEP):</u></b> 2% for each \$2,500 (or fraction thereof) by which AGI exceeds following threshold/ <b>complete AGI</b>		

**Tax Rates, Deductions and Limits (continued)**

**PEP Phase-out income levels (continued):**

	<u>2015</u>	<u>2016</u>
Joint Filers and Qualified Widows	\$309,900-\$432,400	\$311,300-\$433,800
Single Filers	\$258,250-\$380,750	\$259,400-\$380,750
Heads of Household	\$284,050-\$406,550	\$285,350-\$407,850
Married Filing Separately: (each \$1,250 bracket, vs. \$2,500)	\$154,950-\$216,200	\$155,650-\$216,900

**Reduction in Itemized Deductions (Pease Limitation)**

By 3% of excess of AGI over amounts above,  
up to 80% of itemized deductions otherwise  
available (same beginning thresholds as PEP above)

**Standard Deduction:**

	<u>2015</u>	<u>2016</u>
Single	\$ 6,300	\$ 6,300
Married Filing Jointly and Qualified Widower	\$ 12,600	\$ 12,600
Married Filing Separately	\$ 6,300	\$ 6,300
Head of Household	\$ 9,250	\$ 9,300

**Additional Deduction for Elderly and Blind:**

Single and Heads of Household	\$ 1,550	\$ 1,550
Married and Surviving Spouses	\$ 1,250	\$ 1,250

**Dependent of Another:**

Greater of (\$XXX) or (\$XXX plus earned income) not to exceed regular standard deduction (plus \$1,550 for blind dependent)	\$1,050/\$350	\$1,050/\$350
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<b><u>Earned Income Credit:</u></b>	<u>2015</u>	<u>Max Credit</u>	<u>2016*</u>	<u>Max Credit</u>
	<u>Earned Inc/ AGI Less Than</u>		<u>Earned Inc/ AGI Less Than</u>	
No Qualifying Children	\$14,820 (\$20,330 MFJ)	\$ 503	\$14,880 (\$20,430 MFJ)	\$ 506
1 Qualifying Child	\$39,131 (\$44,651 MFJ)	\$3,359	\$39,296 (\$44,846 MFJ)	\$3,373
2 Qualifying Children	\$44,454 (\$49,974 MFJ)	\$5,548	\$44,648 (\$50,198 MFJ)	\$5,572
3 or More Children	\$47,747 (\$53,267 MFJ)	\$6,242	\$47,955 (\$53,505 MFJ)	\$6,269

(MFS does not qualify; Investment income limit = \$3,400 in 2015 and 2016)

\*Phase-out range is indexed for inflation after 2015 per extender legislation.

**Education Credits:**

**American Opportunity Credit (AOC) (before 2018):**

First four years of qualifying undergraduate higher education tuition and fees required for attendance at accredited institutions for each qualified taxpayer, spouse, and dependent (see phase-out modified AGI limits) for both 2015 and 2016:

Up to 100% of first	\$2,000
25% of next	\$2,000
Phase-out range:	\$160-\$180,000 MFJ; \$80,000-\$90,000 Others; (None for MFS) 2015 and 2016

**Tax Rates, Deductions and Limits** (continued)

**Note:** Taxpayers claiming the AOC credit must report the employer identification number of the educational institution paid beginning in 2016.

**Lifetime Learning Credit:**

Only one credit per taxpayer (not combined with AOC for student)

	<u>2015</u>	<u>2016</u>
20% of up to	\$10,000	\$10,000
Phase-out range:	\$110,000-\$130,000 MFJ	\$111,000-\$131,000 MFJ
(None for MFS)	\$55,000-\$65,000 for Other Qualifying Taxpayers	\$55,000-\$65,000 for Other Qualifying Individuals

**Optional "above the line" deductions of up to \$4,000 paid tuition**

for taxpayers whose modified AGI doesn't exceed \$65,000 (\$130,000 for MFJ) or \$2,000 for taxpayers with modified AGI exceeding \$65,000 (\$130,000 for MFJ) but doesn't exceed \$80,000 (\$160,000 for MFJ) in 2015 and 2016.

	<u>2015</u>	<u>2016</u>
<b><u>Foreign Earned Income Exclusion</u></b>	\$100,800	\$101,300

(Foreign housing costs between 16% and 30% of excluded amount can also be excluded):

	\$ 99,200	\$100,800
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**Maximum Exclusion for Foreign Housing Costs**

(increased in high-cost localities)

	\$ 14,112	\$ 14,182
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	<u>2015</u> <u>Exemption/Phase-Out</u>	<u>2016</u> <u>Exemption/Phase-Out</u>
<b><u>Alternative Minimum Tax:</u></b>		
Married Filing Jointly or Qualified Widow/less 25% of AMTI in phase-out	\$83,400/\$158,900-\$492,500	\$83,800/\$158,900-\$492,500
Single or HOH/less 25% of AMTI in phase-out	\$53,600/\$119,200-\$333,600	\$53,900/\$119,700-\$335,300
Married Filing Separately/less 25% of AMTI in phase-out	\$41,700/\$79,450-\$246,250	\$41,900/\$79,850-\$247,450

28% Rate Applied to Excess Taxable Income (AMTI Minus Exemption) over:  
 \$92,700 in 2015 for Marrieds Filing Separately and \$185,400 in 2015 (\$186,300 for 2016) for all other filers.

**Section 179 Write-Off of Qualified Business Assets in Service in Acquisition Year Against Income:**

	<u>2015</u>	<u>2016</u>
Overall limit	\$ 500,000	\$ 500,000
SUV limit/vehicle	\$ 25,000	\$ 25,000
Qualifying property phase-out	\$2,000,000	\$2,000,000

**Note:** Air conditioning and heating units placed in service after 2015 qualify and the \$500,000 and \$2,000,000 amounts will be adjusted for inflation in 2016. The \$250,000 cap on qualified real property is eliminated in 2016.

**Tax Rates, Deductions and Limits** (continued)

**Health Savings Account (HSA) Limitations:**

	<u>2015</u>	<u>2016</u>
Self-Plan	\$ 3,300	\$ 3,350
Family-Plan	\$ 6,650	\$ 6,700
Age 55 Catch Up	\$ 1,000	\$ 1,000
Minimum Deductible - Self-Plan	\$ 1,300	\$ 1,300
Minimum Deductible - Family-Plan	\$ 2,600	\$ 2,600
Maximum Deductible - Self-Plan	\$ 6,450	\$ 6,550
Maximum Deductible - Family-Plan	\$ 12,900	\$ 13,100

**Flexible Spending Arrangement (FSA)** – Limit of voluntary employee salary reduction for contributions to cafeteria plan

	\$ 2,550	\$ 2,550
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**Long-Term Care Deduction Limitations:**

Age 40 or younger	\$ 380	\$ 390
Age > 40 but < 50	\$ 710	\$ 730
Age > 50 but < 60	\$ 1,430	\$ 1,460
Age > 60 but < 70	\$ 3,800	\$ 3,900
Age > 70	\$ 4,750	\$ 4,870

**Student Loan Interest Deduction:**

Maximum (2015 and 2016)	\$2,500
With modified AGI phase-outs of	\$130,000-\$160,000 for MFJ; \$65,000-\$80,000 for All Others

**EE and I Series Savings Bond Interest**

	<u>2015</u>	<u>2016</u>
<b><u>Income is Excluded</u></b> to extent proceeds are used to pay higher education costs not in excess of qualified expenses with modified AGI phase-outs:		
	\$115,750-\$145,750 MFJ \$77,200-\$92,200 S & HOH None for MFS	\$116,300-\$146,300 MFJ \$77,550-\$92,500 S & HOH None for MFS

**Retirement Saver's Non-Refundable Credit:**

may be available to lower income contributors for IRA and Qualified Elective Retirement Plan contributions for a percentage of up to \$2,000 based on modified AGI ranges as follows:

<u>Applicable Percentage</u>	<u>Filing Status</u>	<u>2015</u>	<u>2016</u>
50%	MFJ	\$0-\$36,500	\$0-\$37,000
	HOH	\$0-\$27,375	\$0-\$27,750
	S; MFS; QW	\$0-\$18,250	\$0-\$18,500
20%	MFJ	\$36,501-\$39,500	\$37,000-\$40,000
	HOH	\$27,376-\$29,625	\$27,750-\$30,000
	S; MFS; QW	\$18,251-\$19,750	\$18,500-\$20,000
10%	MFJ	\$39,501-\$61,000	\$40,000-\$61,500
	HOH	\$29,626-\$45,750	\$30,000-\$46,125
	S; MFS; QW	\$19,751-\$30,500	\$20,000-\$30,750
0%	MFJ	Over \$61,000	Over \$61,500
	HOH	Over \$45,750	Over \$46,125
	S; MFS; QW	Over \$30,500	Over \$30,750

**Retirement Saver's Credit** (continued):

Note: AGI determined without regard to foreign possessions and Puerto Rico income exclusions for individuals at least 18 years old by year-end except full-time students or dependent of another in the tax year.

**Taxable Income Rate Brackets**

	<u>Joint or Surviving Spouse</u>	<u>Single</u>	<u>H of H</u>	<u>Married filing separately</u>
10% RATE ENDS:				
2015	\$ 18,450	\$ 9,225	\$ 13,150	\$ 9,225
2016	\$ 18,550	\$ 9,275	\$ 13,250	\$ 9,275
15% RATE ENDS:				
2015	\$ 74,900	\$ 37,450	\$ 50,200	\$ 37,450
2016	\$ 75,300	\$ 37,650	\$ 50,400	\$ 37,650
25% RATE ENDS:				
2015	\$151,200	\$ 90,750	\$129,600	\$ 75,600
2016	\$151,900	\$ 91,150	\$130,150	\$ 75,950
28% RATE ENDS:				
2015	\$230,450	\$189,300	\$209,850	\$115,225
2016	\$231,450	\$190,150	\$210,800	\$115,725
33 % RATE ENDS (35% IN EXCESS):				
2015	\$411,500	\$411,500	\$411,500	\$205,750
2016	\$413,350	\$413,350	\$413,350	\$206,675
35 % RATE ENDS (39.5% IN EXCESS):				
2015	\$464,850	\$413,200	\$439,000	\$232,425
2016	\$466,950	\$415,050	\$441,000	\$233,475

Additional taxes, such as the .9% additional Medicare health insurance tax applicable to employee wages and self-employed income over \$200,000 (or \$250,000 for combined wages and self-employment income on a joint return), 3.8% net investment income (NII) tax on the lesser of NII or excess of modified adjusted gross income over \$250,000 for joint filers or surviving spouses, \$125,000 for married filing separately, and \$200,000 for others, and net capital gains taxes at rate of 20% if it would be taxed at 39.6% if ordinary income, 15% rate if it would have been taxed at ordinary income rates from 15% and 35%, or zero if less, or rates of 28% on collectible gains and 25% on unrecaptured section 1250 property depreciation, plus deduction limitations, alternative minimum taxes, available credits and applicable penalties can materially alter your effective tax rates.

We have tailored this planning information for general relevance to our diverse clientele. This letter and a helpful tax data organizer are available on our website, [www.fielderco.com](http://www.fielderco.com), which was created over 25 years ago to assist clients, our friends. Please call on us for specific planning questions in your case. We wish you great success and happiness.

Sincerely,



Jim Fielder