

**2015**

# **YEAR-END TAX PLANNING GUIDE**

**Abstract summary – A comprehensive look at the year in review, federal tax laws and the factors facing business owners and individuals for this filing year.**

**TAX SERVICES DEPARTMENT**  
BY HOWARD KASS, CPA, CGMA, AEP®, PARTNER

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**zinner**&CO.

Certified Public Accountants and Management Consultants

3201 Enterprise Parkway, Suite 410 • Beachwood, OH 44122  
P: 216.831.0733 • F: 216.765.7118 • [zinnerco.com](http://zinnerco.com)

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**Sometimes, the status quo is a good thing...**

**Thanks for downloading the 2015 Year-End Tax Planning Guide. Inside, you'll find up-to-date information, tips and tax planning strategies that will help you prepare for the 2016 filing season.**

Several years ago, I would write this letter to outline the significant tax changes that Congress had passed and as a result, affect your taxes in the coming year. If they were expiring tax credits, I would detail how one could be affected either as an individual taxpayer or a business owner. In years past, some of these tax changes were impactful. For example, qualified charitable distributions from IRA accounts had been one of the most popular tax provisions since it was originally enacted. In fact, this provision is probably the one that clients ask about most frequently and causes the greatest frustration when it isn't extended timely.

There does not appear to be any significant tax change on the horizon for 2016. While Congress christened the status quo late last year for 2015, based on Congress's inability to work together, it is to be presumed that they won't again this year, resulting in no major change in their tax obligation from Congressional action.

There are many facets to tax law and as taxpayers, our goal is ensure you or your business is in an optimum position to reduce taxable income. I, along with the Zinner & Co. tax team, work with clients year-round to calculate if/then scenario's based on unique aspects that can affect an individual or corporate tax obligation.

In this guide, you'll discover the IRS requirements for some of the more common credits and deductions, understand which phase-outs may affect you, learn about the latest Affordable Care Act provisions, differences of Roth vs. traditional IRAs, what the IRS is doing to protect taxpayers from identity theft and finally, 10 great things you can do right now to help save on your taxes.

Stay connected. We're here to help you via phone at 216-831-0733, by email at [info@zinnerco.com](mailto:info@zinnerco.com) or by following us on our social media sites, Facebook, Twitter and LinkedIn.

Thanks again for being a trusted friend of the firm.

Sincerely,

Zinner & Co.

Howard J. Kass, CPA, CGMA, AEP®  
Partner

# TAX RETURN FRAUD

According to the Internal Revenue Service, tax return fraud is projected to reach \$21B in 2016\*, a figure that is over triple the number from just two years ago. With cybercrime becoming increasingly rampant, more sophisticated and ever-changing, what were once minor flaws in the system are now concerning threats to individuals and their businesses. As a result, individuals can no longer ignore the potential threat of tax return fraud. Taxpayers are now faced with the question of not only how to protect themselves from risk but also know what to do should it occur.

## IDENTITY THEFT

Identity theft remains a top priority for the Internal Revenue Service as it is one of the fastest growing crimes nationwide. Refund fraud caused by identity theft is one of the biggest challenges facing the IRS. This year, the IRS continued to take new steps and strong actions to protect taxpayers, help victims of identity theft and refund fraud. One of the steps Ohio taxpayers may have noticed is the Identity Confirmation Quiz. The quiz asks a short series of random questions that only the taxpayer would know; data is gathered from historical public and commercial sources. If selected to take the quiz to verify your identity, you will be asked to answer those questions or provide documentation proving your identity. You can take the quiz twice should you have failed attempts. However, if you cannot pass the quiz, you will need to speak with a representative who can help you with the quiz or other ways to prove your identity.

### **Tips to protect you from becoming a victim of identity theft:**

- Do not carry your Social Security card or any documents that include your Social Security number (SSN) or Individual Taxpayer Identification Number (ITIN)
- Do not give a business your SSN or ITIN just because they ask. Give it only when required
- Protect your financial information
- Check your credit report every 12 months
- Secure personal information in your home

- Protect your personal computers and devices by using firewalls and anti-spam/virus software, updating security patches and changing passwords for Internet accounts often (every 3-6 months)
- Do not give personal information over the phone, through the mail or on the Internet unless you have initiated the contact or you are sure of the person or the company

● ● **LEARN MORE:** Visit our *Fraud and Identity Theft* page for more information, articles and resources: [zinnerco.com/zinner-blog/preventing-identity-theft-starts-with-securing-your-personal-information](http://zinnerco.com/zinner-blog/preventing-identity-theft-starts-with-securing-your-personal-information)

\*source: cnbc.com

Source: irs.gov

More information is available at IRS.gov:  
<http://www.irs.gov/uac/Identity-Protection-Tips>

# FRAUD PREVENTION

If your tax records are not currently affected by identity theft, but you believe you may be at risk due to a lost or stolen purse or wallet, questionable credit card activity or credit report, contact the IRS Identity Protection Specialized Unit at 800-908-4490 (Monday - Friday, 7 a.m. - 7 p.m.).

## **If you believe you're a victim of identity theft:**

Be alert to possible identity theft if you receive notice from the IRS or learn from your tax professional that:

- More than one tax return was filed under your name
- You have a balance due, refund offset or have had collection actions taken against you for a year you did not file a tax return
- IRS records indicate you received more wages than you actually earned or,
- Your state or federal benefits were reduced or cancelled because the agency received information reporting an income change

## **If you receive notice from the IRS and suspect your identity has been used fraudulently, respond immediately by calling the number on the notice.**

If you did not receive an IRS notice but believe you've been the victim of identity theft, contact the IRS Identity Protection Specialized Unit at 800-908-4490 to initiate steps to secure your tax account and match your SSN or ITIN.

Also, fill out the IRS Theft Affidavit, [Form 14039](#).

In addition, we recommend you take the following steps with agencies outside the IRS:

- Report incidents of identity theft to the Federal Trade Commission at [www.consumer.ftc.gov](http://www.consumer.ftc.gov) or the FTC Identity Theft hotline at 877-438-4338 or TTY 866-653-4261
- File a report with the local police
- Contact the fraud departments of the three major credit bureaus:
  - Equifax – [www.equifax.com](http://www.equifax.com), 800-525-6285
  - Experian – [www.experian.com](http://www.experian.com), 888-397-3742
  - TransUnion – [www.transunion.com](http://www.transunion.com), 800-680-7289
- Close any accounts that have been tampered with or opened fraudulently

● ● **LEARN MORE:** Download the free *Taxpayer Guide to Identity Theft* <http://www.irs.gov/uac/Taxpayer-Guide-to-Identity-Theft>

# THE AFFORDABLE CARE ACT

In March 2010, the Patient Protection and Affordable Care Act (PPACA) was signed into law by President Barack Obama. While the premise was to ensure each American had access to quality and affordable healthcare coverage (largely, by expanding Medicaid while also adopting subsidies approved by Congress), the ACA quickly became a mandate mirroring Swiss cheese. Over 30 million Americans who were under- or uninsured anticipated a positive change in the opportunity to obtain healthcare; what those folks and virtually all others discovered was a plan filled with looming deadlines, steep penalties and complicated provisions. In the five years since the PPACA became law, a variety of time-sensitive deadlines have materialized and those taxpayers and businesses that, for whatever reason, were non-compliant, have been paying the price.



With that said, as each tax year has passed, some new PPACA provisions have taken effect, along with related penalties in which we, as tax preparers, have advised our clients. Fourth quarter planning is, therefore, crucial; during this time, we take a look ahead at how an individual or business may be impacted if some of those provisions, mandates and requirements have not been met. We can also counsel as to what steps can be taken to minimize the impact of penalties.

### **For Individuals:**

The open enrollment period for individuals ended February 15, 2015. For individuals, the federal mandate required most Americans to have qualified health insurance coverage (as of Jan. 1, 2014) or pay a fine and/or penalty. If you are a taxpayer and did not have health insurance for a total of two or more months in 2015, you may be subject to a penalty payable on your tax return due April 18, 2016. The amount owed is based on the number of uninsured individuals in your household and household income.

There are some variables surrounding the mandate and for most, this means little or no change in their taxes. The ACA's insurance mandate will not impact your taxes if:

- You had employer-provided insurance for most of 2015, or you purchased coverage through a private exchange or directly from an insurance company
- You qualified for a hardship exemption
- You qualified for an income related-exemption

### **For Business:**

Effective January 1, 2015, businesses with more than 100 full-time employees in 2014 (or a combination of full-time and part-time employees equivalent to 100 full-time employees) were required to either offer a minimum level of health care coverage to employees and their dependents, or pay the IRS Employer Shared Responsibility payments for any FTEs who purchase coverage through a marketplace and receive the premium tax credit. The threshold for the employer mandate was supposed to drop to 50 full time employees on 1/1/16, but Congress recently acted to leave the threshold at 100 full time employees.

- Employers subject in 2015 must cover at least 70 percent of full-time employees
- Percentage will increase to 95 percent in 2016



# TAX EXTENDERS

While we'd like to say there is big news to report for the 2015 filing year, in reality, the tax extenders (those temporary provisions that expire and are reinstated on a regular basis) are largely in a "wash, rinse and repeat" cycle.

## **Tax extenders for individuals include:**

- **Tax-free charitable donation up to \$100,000 from an IRA for taxpayers 70½ or older.**

Distributions that are excluded from gross income because of this provision would not be taken into account in determining the deduction for charitable contributions under Section 170.

- **Above-the-line deduction for up to \$250 of educator expenses.** This covers books, classroom supplies, and computer equipment for eligible elementary and secondary school teachers. In general, unreimbursed employee business expenses are deductible only as an itemized deduction and only to the extent that the individual's total miscellaneous deductions exceed two percent of adjusted gross income.



- **Above-the-line deduction for eligible individuals for higher education expenses.** The maximum deduction of \$4,000 for higher education expenses, including tuition and fees, is for eligible individuals whose adjusted gross income for the taxable year does not exceed \$65,000 (\$130,000 in the case of a joint return), or \$2,000 for other individuals whose adjusted gross income does not exceed \$80,000 (\$160,000 in the case of a joint return).

## **There are several business-related tax extenders. Here are some of the more broad-based:**

- **Increased dollar limit for Section 179 expensing.** This proposed extender would allow taxpayers to elect to deduct up to \$500,000 of the cost of qualifying property, with a phase-out beginning at \$2,000,000.

- **Bonus depreciation of 50 percent for property acquired and placed into service in 2015.** The additional first-year depreciation deduction is allowed for both the regular tax and the Alternative Minimum Tax but is not allowed in computing earnings and profits. The basis of the property and the depreciation allowances in the year of purchase and later years are adjusted to reflect the additional first-year depreciation deduction.
- **Monthly exclusion for employer-provided transit/vanpool benefits up to \$250.** This provision provides parity with employer-provided parking.

Because Congress traditionally passes these late in the year, if at all (last year, it was December 16 when the decision was made), it is difficult to predict whether or not any or all will stay or go.

● ● **LEARN MORE:** [zinnerco.com/tax-services/business-tax-services](http://zinnerco.com/tax-services/business-tax-services)

## NET INVESTMENT INCOME TAX (NIIT)

Each year, since its inception, many of our clients discover they are subject to Net Investment Income Tax. Simply, if you have income from investments, you may be subject to the tax. The tax is based on income received from investments and measured against a defined threshold of income.

Net investment income typically includes income from:

- Interest
- Dividends
- Capital gains
- Rental and royalty income, and
- Non-qualified annuities

The law imposes a tax of 3.8 percent on the lesser of your net investment income or the amount by which your modified adjusted gross income (MAGI) exceeds a threshold amount, based on your filing status.



## Income threshold amounts:

You may owe net investment income tax if your modified adjusted gross income is more than the following amount for your filing status:

Filing Status	Threshold Amount
Single or Head of household	\$200,000
Married filing jointly	\$250,000
Married filing separately	\$125,000
Qualifying widow(er) with a child	\$250,000

The list of net investment income, above, is not all-inclusive. Net investment income normally does not include wages, most self-employment income and unemployment compensation, Social Security benefits or alimony. Net investment income also does not include any gain from the sale of your main home that you exclude from your income.

If you owe the tax, we will file IRS [Form 8960](#) with your federal tax return. If you had too little [tax withheld](#) or did not pay enough [estimated taxes](#), you might have to pay an [estimated tax penalty](#).

# DID YOU TURN 70½ IN 2015?

If you reached the age of 70 ½ in 2015, you need to know and adhere to the rules regarding Required Minimum Distributions (RMDs). Understanding your investments is only half the equation to retirement planning. Many are unaware that while doing the right thing by having a diversified retirement portfolio is beneficial, if you hold an IRA, Simple IRA, SEP IRA or retirement plan account when you reach the age of 70 ½, you must start withdrawing. Minimum distribution rules apply to:

- Traditional IRAs
- SEP IRAs
- SIMPLE IRAs
- 401(k) plans
- 403(b) plans

- profit sharing plans
- other qualified plans

If you hold a Roth IRA, withdrawals are not required until after the death of the owner.

How do you know what your RMD amount will be? There is a formula provided by the IRS, but it can be confusing. Our tax team works with clients to determine the withdrawal amount as required by the IRS, taking into consideration each client's financial circumstances.

RMDs are based solely on account balances and age. Considerations on withdrawals include IRAs that were inherited from the original owner and 5 percent ownership plans for example. Withdrawal variables can become quite confusing and can extend to include not only your age but also your spouse's age.

What if you do not take the required RMD? The penalty is steep; if you do not take any distributions, or if the distributions are not large enough, you may have to pay a 50 percent excise tax on the amount not distributed as required.

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## FOREIGN INVESTMENTS

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As Americans, we are required to pay taxes on all income sources. This includes not only income from wages, dividends, winnings, and inheritance, but also income received from foreign sources. This income must be reported even if you do not receive a W-2, 1099 or other income reporting forms from another country. The IRS imposes steep penalties for not disclosing foreign assets or reporting income from foreign sources. In some instances, this may be construed as a crime. Penalties for violating the foreign reporting rules can be extremely severe and may be confiscatory.



# IRA BENEFICIARIES: WHAT YOU NEED TO KNOW NOW

If you have an IRA, you are generally required to complete a beneficiary designation form with the IRA custodian. As you may know, the beneficiary(ies) you name will receive the remaining funds in your IRA after you die. For **Traditional** IRAs, your choice of beneficiary may have implications in other important areas, including:

- The size of the annual required minimum distributions (**RMDs**) that you must take from the IRA during your lifetime
- The rate at which the funds must be distributed from the IRA after your death
- The combined federal estate tax liability of you and your spouse (assuming you are married and expect estate tax to be an issue for one or both of you)

During your lifetime, **Roth** IRAs are not subject to the RMD rules. However, the beneficiaries of your Roth IRA are generally required to take RMDs from the account after you die. Also, **qualified** distributions from Roth IRAs are income-tax free.

Due to these and other complexities, choosing beneficiaries for your IRA is often a significant financial decision. It is in your best interest to select proper beneficiaries with the help of a tax advisor and/or other qualified professionals. Your financial and personal circumstances will likely evolve over time, and you are often free to add or remove beneficiaries whenever you want. You should periodically review your beneficiary selections to make sure they are still the right choices.

If you are considering naming a trust as a beneficiary of your IRA, make sure that you seek qualified legal counsel. The rules that govern trusts as IRA beneficiaries are complex.

# DOES IT PAY TO DO A ROTH CONVERSION?

## ROTH IRA VERSUS TRADITIONAL

For both types of IRAs, distributions before age 59-1/2 may be subject to both ordinary income taxes and a 10 percent early withdrawal penalty.

With a Roth IRA, you contribute money that's already been taxed (that is, "after-tax" dollars). Any earnings in a Roth IRA grow tax-free as long as they stay in the account.



Withdrawals of earnings from Roth IRAs are federal income tax free if a 5-year aging period has been met and the account owner is age 59-1/2 or older, disabled or deceased.



Roth IRAs are not subject to Minimum Required Distribution (MRD) rules during the lifetime of the original owner, so you can leave your assets in the Roth IRA where they have the potential to continue to grow.



With a Traditional IRA, contributions can be made on an after-tax basis, or a pre-tax (tax-deductible) basis if certain requirements are met.



Any earnings in the Traditional IRA are tax-deferred as long as they stay in the account.



Withdrawals of pre-tax monies are subject to ordinary income tax when withdrawn. After the owner reaches approximately age 70-1/2, Minimum Required Distributions are required from Traditional IRAs.



### What account types can you convert?

Traditional IRAs (including Rollover IRAs), SEP-IRAs, SAR-SEP IRAs, and SIMPLE IRAs, are all eligible to be converted to a Roth IRA (SIMPLE IRA contributions cannot be converted to a Roth IRA during the first two years.) Rollover IRAs containing assets from an employer-sponsored plan account are also eligible to be converted. In addition, balances from employer-sponsored savings plans (e.g. a 401(k) or 403(b) plan) that are eligible for distribution and rollover may generally be converted (for example, when you are no longer working for the company sponsoring the plan).

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# 10 SIMPLE THINGS YOU CAN DO RIGHT NOW TO REDUCE YOUR TAXES

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## **For Business**

1. Hire an unemployed veteran and receive the work opportunity tax credit
2. Hire independent contractors (no payroll tax due)
3. Track business travel and entertainment expenses
4. Track lunch meetings; (50%) is deductible (within reason – keep receipts)
5. Deduct the business use of your car
6. Deduct the cell phone expense portion for your business
7. Utilize the home office deduction
8. Set up a tax-favored retirement plan
9. Buy machinery and equipment before year end and utilize Section 179 deduction
10. Offer employees additional benefits instead of raises or bonuses

## **For Individuals**

1. Donate items, including appreciated stock, to charity or make a charitable cash contribution (get a receipt for your donation)
2. Discover credits for childcare costs (daycares and sitters)
3. Check if you qualify for the Earned Income Credit
4. Discover the tax credits for replacing energy saving windows, insulation or HVAC systems
5. Take any stock losses to offset any gains and deduct up to \$3000
6. Track medical receipts and premium payments
7. Give away money (yes, give it away!) up to \$14,000 to an individual
8. File on time – avoid penalties (ask for an exception if you are late; the penalty can be waived once)
9. Use a credit card to pay deductible expenses before year-end in 2015, but write the check in 2016
10. Consider applying a “something” strategy to your itemized deductions if your expenses typically are close to the standard deduction threshold.

We have helped clients find their 10 Simple Things and, as a result, can nip away at the dollars due in taxes. Simple strategies and proper planning through sound advice can yield a better bottom line.

# ABOUT THE TAXATION DEPARTMENT

Lead by partner Howard Kass, CPA, CGMA, AEP®, the taxation department team works with individuals and businesses to create and develop meaningful strategies that yield positive financial outcomes. The team guides and counsels clients in federal, state and local taxation in addition to sub-specialty areas within taxation, including business tax, individual tax, IRS matters, estate, gift and trust services and international tax planning.



Howard J. Kass, CPA, CGMA, AEP®  
Partner



Brett W. Neate, CPA, M.Tax  
Senior Tax Manager



Gary Sigman, CPA, M.Tax, PFS, AEP®  
Accounting & Tax Services Manager



Barb Theofilos, CPA, MBA  
Accounting & Tax Supervisor



DeAnna Alger, CPA  
Accounting & Tax Services Senior



Robert O'Neil, CPA  
Staff Accountant



Mike Hermes  
Tax Senior