

2016 TAX ESSENTIALS LETTER



IT'S TAX TIME AGAIN...

Once again, it's time to file and pay your taxes. Your mailbox should be filling up with the information you will need to get the job done.

This letter is full of information designed to help you prepare your tax documents so you will pay only the tax that you rightfully owe.

Time to get organized

The following checklist will help you collect the documents needed to file your tax return. When all of the boxes are checked, you're ready.

- Your last 3 years' tax returns (*new client*). Maybe we can amend and save money.
- Social Security numbers and dates of birth are needed for all taxpayers, spouses and dependents.
- W-2 Forms.
- Your last paycheck stub of the year is full of information.
- 1099 Forms for interest, dividends, retirement, Social Security, and unemployment need to be entered correctly to comply with the IRS matching program.
- Property tax statements contain important information. They list the tax (deductible) and special assessments (not deductible).
- Forms 1098 for mortgage interest need to be entered as printed. The IRS cross checks.
- Year-end statements from investment accounts with transaction details for the year
- Assets held outside the USA. Bring statement(s). Such assets must be disclosed even if they do not generate income.
- Purchase and sale information, including dates, relating to anything sold during 2016 is needed.
- Child care provider information (name, address, SS#, amount paid) is needed for the child care credit (*even if you are reimbursed at work*).
- Names, addresses, and Social Security numbers from whom you received interest, or to whom you paid interest.
- Bankruptcy or divorce papers (if applicable).
- If you paid an individual person \$600 or more for services rendered in connection with your business, please provide their name, address, and tax ID number.
- Records showing income and expense for any small business or rental property you own will be needed.
- If you have an investment in a Partnership, S Corporation, Estate or Trust you will need to bring Form K-1.
- Bring IRA year-end statements.
- Bring all other statements of income, whether you think they are taxable or not.
- Forms 1098-T amounts paid for post-secondary tuition are sent to the student. If the student is your dependent, you will need to obtain 1098-T from the student to get the credit.
- Bring your records of estimated taxes paid.
- Student loan interest forms 1098-E.
- Adoption costs if applicable. Also bring the legal adoption documents.
- Form 1098-C for donations of automobiles or boats.
- Details on all noncash donations greater than \$500. Include date, place, fair market value, and original cost.
- If you purchased a new fuel cell or electric plug-in vehicle in 2016, bring the year, make and purchase date.
- Bring a voided check for direct deposit of any refunds you expect to receive.
- Noncustodial parents claiming children need a signed IRS Form 8332 to claim the child.
- If your mortgage was forgiven due to foreclosure, bring Form 1099-C or 1099-A.
- If you bought a new home or refinanced your existing home bring the closing papers.
- Information on energy saving home improvements might get you a tax credit.
- If you were an investor caught in a Ponzi-type scheme, bring the details.
- If you received Forms 1099-K for internet or credit card sales please bring them.
- Proof of health insurance is needed. Bring Form 1095 if you received one.
- Health Savings Account (HSA) contributions and distributions. Bring forms 5498-SA and 1099-SA.
- Out of pocket medical expenses may be deductible (if large). Bring details.



WHAT'S NEW FOR 2016?

There are plenty of changes now in effect from prior legislation, IRS rulings, and court cases.

Are you filing early to get a fast refund? Taxpayers getting the Earned Income Credit or refundable Child Tax Credit will have to wait until Feb. 15th for a refund regardless of how early they file.

Do you have assets outside the US? The deadline for reporting foreign accounts comes earlier this year. The deadline is now the same as the tax return filing deadline (including extensions). The IRS continues to ramp-up efforts to find foreign account holders. Be sure to give your tax professional a list of all your foreign held accounts and assets.

Do you give to charity from an IRA? Good news. Congress permanently extended the provision allowing people over 70^{1/2} to make tax free distributions from an IRA to charities. Such distributions count toward your RMDs and are capped at \$100,000.

Are you uninsured? More employers are now required to offer affordable health insurance. Employers with 50+ full time equivalent employees are required to offer insurance to 95% of their full time employees. Smaller employers do not have to comply with this rule.

Individuals without health insurance will face increased penalties for tax year 2016. The penalty for not having insurance increases to the greater of 2.5% of income above the filing threshold or a flat fee of \$695 per adult (up from 2% and \$325 respectively in 2015).

Do you want to start a ROTH IRA? Now there is a new kind of ROTH IRA called a myRA (go to myRA.gov for details). It costs nothing to open an account and there are no fees or minimum contributions. The tax rules are exactly the same as a regular ROTH IRA (same contribution and distribution rules and limits).

Are you part of the 'Sharing Economy'? The IRS has launched the new "Sharing Economy Tax Center" (enter keyword 'sharing economy' at IRS.gov for a link). The site is designed to help Uber drivers & Airbnb renters (among others) understand their tax obligations. And don't forget... if you rent your home for fewer than 15 days you don't need to report the income on your tax return.

Do you need a transcript from the IRS? The IRS's "Get Transcript" service is back online (use keyword "transcript" at IRS.gov for a link). It was suspended last year due to hackers stealing taxpayer transcripts. Now there are extra verification steps to help prevent another hacking incident.

Are you aware of the latest tax scams? The IRS saw a 400% surge in scams in 2016. The IRS's "Tax Scams/Consumer Alerts" webpage has the latest (use keyword "scams" at IRS.gov for a link). There are a variety of fake phone calls, eMails, and texts designed to resemble IRS communications. Remember that the IRS never initiates contact by phone, text, or email. Never click on any links and never provide any information. Scammers are also using fake letters that look like IRS audit notices. Ask your tax professional if the letters are legit before taking action.

Do you own a business? The IRS has made it easier to write-off items that last longer than one year. Now you can elect to expense items costing less than \$2500 (last year the limit was \$500). As always, save your receipts because you will need to prove that each item was less than \$2500.

There are other generous provisions if you bought a new truck (6000+ lbs gross vehicle weight) for your business. Legislation passed in December 2015 permanently extended the \$25,000 expensing and 50% bonus depreciation of such vehicles.

Do you have employees or contractors? This year the IRS wants your W2 and 1099-misc filings by Jan 31st. In prior years you had until March 31st (if you e-filed).

Do you have lots of medical expenses? This is the last year for seniors to take advantage of the 7.5% medical expense deduction threshold. Next year the threshold goes to 10%.

Did you or your kids attend college? This year more schools will be reporting the amounts of tuition paid on form 1098-T. In previous years most schools only reported the amount billed, which is not what is needed to calculate education credits and deductions.

Did you buy a computer for college? The tax court has ruled that a computer is not a qualified expense for the American Opportunity Credit unless it was a requirement to attend the college.

Do you owe the IRS? The IRS has raised the interest rate on underpayment of income tax to 4% (up from 3%). The IRS has also increased the late filing penalty to \$205 (up from \$135) for returns with a balance due filed greater than 60 days past the deadline. For some taxpayers that have outstanding inactive debts the IRS is switching to private debt collectors starting in spring 2017.

Are you worried about being Audited? IRS audits are at historically low rates (0.84% of returns filed). However, there is a greater chance of being audited if you claim the Earned Income Credit (1.75% audited), own a business (2.5% audited), or make more than \$1million/yr (9.5% audited).

Did you work at the polls this election? Remember that what you earned is taxable income.

Did you pay taxes to Cuba? Good news. Now taxes paid to Cuba qualify for the Foreign Tax Credit.



Typical of an election year, there were no major tax bills passed in 2016. However, plenty of changes went into effect this year due to prior legislation, IRS rulings, and tax court cases.

Best of all, taxes on the same income as last year are automatically lower due to indexing.

These are only some of the highlights of the legislation, rulings, and court cases affecting your 2016 tax situation. A good tax professional can help you use these new decisions to their fullest.

Turn the page for some great year-end tax-saving ideas.

