

January 7, 2016

Happy New Year! May it bring you and your loved ones health and prosperity throughout the year.

We hope you are revving up for a good year. As I write this tax update letter, about 5% of the year has trickled by already. Can you believe it? First, Monday, April 18, 2016, is the due date for filing taxes. This is because of the Emancipation Day Holiday celebrated in the District of Columbia on April 15. Please have all your information into us by noon on Monday, April 4, 2016. Secondly, our tax organizer can be found on our website at baicpa.com, under News & Events.

As in prior years, Congress passed last minute tax legislation in December. The Protecting Americans from Tax Hikes (PATH) Act made permanent a number of tax breaks set to expire. These include the state and local sales tax deduction, teacher classroom expense deductions, tax-free charitable distributions from retirement accounts and the American Opportunity (education) tax credit. Fortunately, the IRS will not have to do much tinkering with their system to begin accepting returns after mid-January.

Let's review the tax law changes in a format of FAQ's.

1) Automobile Mileage Rates

	<u>2015</u>	<u>2016</u>
Business	57.5¢	54.0¢
Medical / Moving	23.0¢	19.0¢
Charitable	14.0¢	14.0¢

2) Retirement Contribution Limits

	<u>Under age 50/50 and over</u>	<u>Under age 50/50 and over</u>
IRA Accounts	\$5,500/\$6,500	\$5,500/\$6,500
SIMPLE Plans	\$12,500/\$15,500	\$12,500/\$15,500
401(k) Plans	\$18,000/\$24,000	\$18,000/\$24,000

3) Gift Tax Exclusion

<u>2015</u>	<u>2016</u>
\$14,000	\$14,000

4) Estate Tax Exempt

<u>2015</u>	<u>2016</u>
\$5.43 million	\$5.45 million

5) **Capital Gain Tax Rate** - Top rate - 20% for those in the highest tax brackets. There are two other rates of zero and 15% depending on income level.

6) **Tax Rate Range** - In the progressive tax system, there are seven layers of tax rates ranging from zero % all the way up to 39.6%. The first taxable rate begins at 15%. Below is the range:

	<u>Taxable Income Over</u>	
	<u>15%</u>	<u>39.6%</u>
Single	\$9,225	\$413,200
Married filing joint	\$18,450	\$464,850

(To be brief, the two most common filing statuses are discussed in this letter. All other filing statuses, can be handled on a case-by-case basis).

7) **Itemized deduction** phase-out & the personal exemption phase-out use the same threshold.

	<u>2015</u> <u>Threshold</u>	<u>2016</u> <u>Threshold</u>
Single	\$258,250	\$259,400
Married filing joint	\$309,900	\$311,300

Itemized deductions are reduced by 3% of the amount by which adjusted gross income exceeds the threshold.

Exemptions are reduced by 2% for each \$2,500 (or portion thereof) adjusted gross income exceeds the threshold.

8) **Depreciation** - Bonus Depreciation (50%) for property placed in service during 2015, 2016, and 2017. The rapid write-off of an asset was increased to a maximum deduction of \$500,000 for up to \$2 million in property. The percentage is phased-down to 40% in 2018 and 30% in 2019.

9) **New California** will offer a refundable earned Income Tax Credit for low income families.

10) **Turf Removal** - As California moves from green to brown for landscaping, the rebates issued for water conservation will be taxable by the IRS. The Franchise Tax Board will not tax. Many cities will issue 1099s.

11) **Obama Care** - Taxpayers receiving advanced payment tax credits from Obama Care are required to file a tax return to reconcile the credits received with the income upon which they are based, even if they were not otherwise required to file. Form 1095-A will need to be reconciled in order to file a complete and accurate tax return.

12) **High end bench mark** - For the most recent year available, 2013, the IRS received more than 5 million returns with income over \$200,000. This sub-population accounts for 4% of returns filed.

In the future your W2 will change. Next year your 2016 Form W-2 will only list the last four (4) digits of your Social Security Number. This is to combat identity theft and other tax malfeasance in addition to serving as a reminder regarding IRS telephone scams. Generally the first way the IRS will contact you is via a letter, or certified letter. They will never contact you via a telephone call or email demanding money. Lastly, thank you for all your referrals over the years. We look forward to seeing you soon!

Sincerely,



Kevin G. Breard, C.P.A.
Managing Partner

P.S. IRS - Does the "S" still stand for Service? Last year the IRS had about \$8.8 million "courtesy disconnects". A courtesy disconnect is when the IRS hangs up on you due to switchboard overload.