RKKM
CERTIFIED PUBLIC ACCOUNTANTS

December 2015

To our Clients and Friends:

As 2015 comes to an end, year-end tax planning is again challenging due to late or non-existent tax legislation. As has been the case for the past few years, Congress has yet to act on a host of tax breaks that expired at the end of 2014. Some may be retroactively reinstated and extended, but Congress may not decide the fate of these tax breaks until the very end of this year (and possibly not until next year). These breaks include, for individuals: the option to deduct state and local sales and use taxes instead of state and local income taxes; the above-the-line-deduction for qualified higher education expenses; the exclusion for up-to-$2 million of mortgage debt forgiveness on a principal residence; the teachers' classroom expense deduction and the non-business residential energy property credit. For businesses, tax breaks that expired at the end of last year and may be retroactively reinstated and extended include: 50% bonus first year depreciation for most new machinery, equipment and software; the $500,000 annual Section 179 expensing limitation; and the research tax credit.

For this year's letter, we will be providing information on a few specific topics that we feel affect a majority of our clients. While we cannot possibly touch on every tax law change, the Quick Reference Chart which is attached to the end of this letter does provide additional information on commonly requested rates, figures and limits for 2015 and 2016 that have not been included in the context of this letter.

<u>Individual Health Insurance Mandate</u>

The individual mandate continued in 2015 requiring all individuals and their dependents to have health insurance that is minimum essential coverage or pay a penalty, also known as the shared responsibility payment, unless they are exempt from the requirement. Many people already have qualifying coverage, which can be obtained through the individual market, employer-provided coverage, a government program such as Medicare or Medicaid or from an Exchange. For lower-income individuals who obtain health insurance in the individual market through an Exchange, a premium tax credit and cost-sharing reductions may be available to offset the costs.

For 2015, the individual shared responsibility payment is the greater of 2% of household income that is above the tax return filing threshold for the individual's filing status, or the individual's flat dollar amount which is $325 per adult and $162.50 per child. The annual limit for a family is $975 for 2015.

<u>Energy Credits</u>

Until 2016, the residential energy efficient property credit is available to taxpayers who install certain energy efficient property, such as photovoltaic panels, solar water heating property, fuel cell property, small wind energy property and geothermal heat pumps. A credit is available for the expenditures incurred for such property up to a specific percentage, except that a cap applies for fuel cell property. The property purchased cannot be used to heat swimming pools or hot tubs.

Please note that the non-business residential energy property credit that applied to heating and air conditioning units, insulation, roofs, water heaters, windows and doors expired on December 31, 2014 but could be extended by Congress.

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Ohio Taxpayers with Business Income

The State of Ohio has revamped their Small Business Investor Deduction and will begin calling it the Business Income Deduction in 2015. The deduction is no longer limited to income sourced in Ohio. All individuals who have business income that is taxable to the State of Ohio qualify to exclude 75% of their business income from the Ohio taxable income up to a maximum of $187,500 for single or married filing joint taxpayers ($93,750 for married filing separate taxpayers). For 2016 and thereafter, the deduction is 100% of the first $250,000 of business income ($125,000 for married filing separate taxpayers).

Also new for 2015 is that Ohio business income will be taxed using a separate, lower rate schedule than non-business income. The Ohio income tax return has been modified to separate out taxable business income from taxable non-business income and two separate rate schedules will be used to determine total income tax owed to Ohio.

Required Minimum Distributions after Reaching Age 70½

If you turned age 70½ in 2015, you must begin to take required minimum distributions (RMDs) from your IRA, 401(k) plan or other employer-sponsored retirement plan each year. You have until April 1, 2016 to take your first required distribution. If you wait to take your first distribution in 2016 after turning 70½ in 2015, you will have to take a double distribution in 2016 because you will need to withdraw the amount required for 2015 (by April 1) plus the amount required for 2016 (by December 31).

Think twice before delaying for first required distribution to 2016 because bunching income into 2016 might push you into a higher tax bracket or have a detrimental impact on various income tax deductions that are reduced at higher income levels. On the other hand, it could be beneficial to take both distributions in 2016 if you will be in a lower bracket next year. Failure to take a required minimum distribution can result in a penalty of 50% of the amount of the RMD not withdrawn.

Same Sex Marriage

During 2015, the U.S. Supreme Court held that the Fourteenth Amendment requires a state to license a marriage between two people of the same sex. Prior to this decision, Ohio did not recognize marriages between same sex couples. While couples were required to file joint or married filing separate for federal income tax purposes, the state of Ohio required couples to file as single. The Supreme Court ruling now requires Ohio to recognize all same sex couples as lawfully married whether or not the marriage was performed in or out-of state. As such, all same sex married couples are required to file using either the joint or married filing separate filing status for both their federal and state income tax returns.

Employer Shared Responsibility Provision

The employer shared responsibility provision (employer mandate) of the Patient Protection and Affordable Care Act took effect January 1, 2015 for applicable large employers (ALEs). An ALE is an employer with at least 50 full-time or equivalent (FTE) employees. While ALEs with 100 or more FTEs were subject to the employer mandate starting in 2015, ALEs with 50 to 100 FTEs were exempt from the employer mandate until 2016. Employers with fewer than 50 FTEs are exempt from the employer mandate all together.

Employers that were subjected to the employer shared responsibility provisions for 2015 will have information reporting requirements due in early 2016 for which they are required to report to the IRS certain information regarding the minimum essential coverage offered to employees.

Traditional Year-End Planning Techniques

There are two positions, income acceleration or postponement, which will increase your tax bill in one year so that you can lower your tax bill in the other year. Determining which position is best for your depends on your tax situation for the current year, along with your expected tax situation for the following year. Accelerating income into 2015 (or deferring deductions until 2016) may be beneficial in the case where your marginal tax rate is much lower this year than you expect it to be in 2016. On the other hand, postponing income into 2016 (or accelerating deductions in 2015) would be desirable to other taxpayers who anticipate being in a lower tax bracket in 2016 due to changed financial circumstances.

Use the following to accelerate income into 2015 (for postponement to 2016, delay the following actions):

- Sell outstanding installment contracts
- Receive bonuses before January
- Sell appreciated assets
- Redeem United States Savings Bonds
- Complete Roth conversions
- Accelerate debt forgiveness income
- Maximize retirement distributions
- Accelerate billing and collections
- Avoid mandatory like-kind exchange treatment
- Take corporate liquidation distributions prior to year-end
- Buy machinery and equipment prior to year-end

Use the following to accelerate deductions and/or credits in 2015 (for deferral to 2016, take contrary actions):

- Bunch itemized deductions into 2015 and take the standard deduction in 2016
- Don't delay bill payments until 2016
- Pay last state estimated tax installment in 2015
- Don't delay economic performance
- Watch AGI limitations on deductions/credits
- Watch net investment interest restrictions
- Match passive activity income and losses

These are just some of the year-end steps that can be taken to achieve the tax result that you desire. By contacting us, we can tailor a particular plan that will work best for you. We will stay in close touch in the event Congress revives expired tax breaks, to assure that you do not miss out on any resuscitated tax saving opportunities. If you are not already signed up for our email list, please visit our website at http://www.rkkm.com/emaillist to sign up. If Congress acts to extend through 2015 any tax breaks that previously expired on December 31, 2014, we will send out an e-mail newsletter informing you of any changes and post the updated information along with an updated Quick Reference Chart to our website.

We would like to thank you for allowing us to be of service to you. If we can help in any way, please do not hesitate to contact our office.

Very truly yours,

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Quick Reference Chart

As of 11/24/15

	2015	2016
Mileage rate - business travel	57.5₵	
Mileage rate - medical or moving	23₵	
Mileage rage - charitable	14₵	
Federal unemployment wage base	$7,000	$7,000
Ohio unemployment wage base	$9,000	$9,000
401(k), 403(b) or 457 retirement plan deferral limit	$18,000	$18,000
Catch up contribution (age 50 or older)	$6,000	$6,000
Defined contribution plan total contribution limit	$53,000	$53,000
SIMPLE IRA deferral limit	$12,500	$12,500
Catch up contribution (age 50 or older)	$3,000	$3,000
Traditional and ROTH IRA contribution limit	$5,500	$5,500
Catch up contribution (age 50 or older)	$1,000	$1,000
Earned income limits for Social Security recipients:		
If you will not reach full retirement age by year end	$15,720	$15,720
During year of full retirement, prior to full retirement age	$41,880	$41,880
After full retirement age (66 for those born 1943-1954)	No limit	No limit
Standard deduction:		
Single or married filing separate	$6,300	$6,300
Married filing joint	$12,600	$12,600
Head of household	$9,250	$9,300
Personal exemption	$4,000	$4,050
Phase-out ranges for single	$258,250 - $380,750	$259,400 - $381,900
Phase-out ranges for married filing joint	$309,900 - $432,400	$311,300 - $433,800
Phase-out ranges for married filing separate	$154,950 - $216,200	$155,650 - $216,900
Maximum earned income credit (EIC)	$6,242	$6,269
Flexible spending arrangement (FSA) contribution limit	$2,550	$2,550
Health savings account (HSA) contribution limits:		
Self-only coverage	$3,350	$3,350
Family coverage	$6,650	$6,750
Catchup contributions (age 55 or older)	$1,000	$1,000
Code Section 179 expense limitation	$250,000	$25,000
Code Section 179 investment limitation	$500,000	$200,000
Social Security (OASDI) wage base	$118,500	$118,500

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