

FTA FAMILY TAX ADVANTAGE

LLC

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CLIENT NEWSLETTER

WINTER 2015-2016

Happy New Year!

Due to Congressional gridlock, there have been very few tax law changes in 2015. But on December 17, in a great show of bi-partisanship and compromise, Congress passed both the 2016 Federal Budget, *and* the **Protecting Americans from Tax Hikes (PATH) Act of 2015**. In previous Newsletters, we've told you that almost every year Congress has extended about 50 popular tax breaks that were first enacted in the mid-2000s. *This time it's different!* Almost all these extensions have been made *permanent*, so we won't have to wonder each year what the laws will be. The chart at the end of this Newsletter lists some of the items that expired or were due to expire and which have been extended permanently or temporarily, as well as the annual inflation adjustments for various tax items.

New Due Dates Starting in 2017

For returns filed on or after January 1, **2017**, the due dates and extended due dates for trusts, estates, partnerships, and corporations have been changed. In addition, beginning in 2017, Form FinCen 114 (Report of Foreign Bank Accounts) will be due at the same time as your personal income tax return (April 15, 2017), and a six-month extension will be available for the first time.

Form	Due Date			
	Old	Old Extd	New	New Extd
Partnership (1065)	Apr 15	Sep 15	Mar 15	Sep 15
Corporation (1120)	Mar 15	Sep 15	Apr 15	Oct 15
Trust or Estate (1041)	Apr 15	Oct 15	Apr 15	Sep 30
Foreign Bank Account Report (FinCen 114)	Jun 30	None	Apr 15	Oct 15

Scam Alert: Several of our clients have reported getting (sometimes threatening) phone calls purporting to be from the IRS. **Always remember:** *The IRS communicates only by US Mail, never by phone, email, text message, etc.* Hang up if you get such a call, and do not respond to emails or text messages. Call us *immediately* if you get US Mail from the IRS or any State taxing authority.

Also, don't ever respond to anyone asking for money over the phone, by email, or any other communication. Be especially on guard for the "Grandmother Scam" in which someone calls claiming to be a relative in financial trouble and needs money right away.

Gifts to Other People

One of the most frequent questions we are asked concerns the taxability of gifts. Here's the general rule:

- The person who receives a gift (the "donee") is *never taxed* on the receipt of the gift. If the gift is invested, the *income* earned by the gift is taxable to the recipient.
- The person making the gift (the "donor") *might* have to file a Gift Tax Return (Form 709) and/or *might* owe Gift Tax.

Form 709, if required, is due at the same time as your income tax return (April 15 or extended to October 15). If you are single or if you are married and do not live a Community Property State, a Gift Tax Return is required if any *one recipient* was given more than \$14,000 (the Annual Gift Tax Exclusion) during the year *in total*, regardless of the number of gifts. If you are married and live in a Community Property State (AZ, CA, ID, LA, NV, NM, TX, WA, WI), the Exclusion doubles to \$28,000. If you are married and do not live in a Community Property State, you still get a \$28,000 Exclusion, but you must file Form 709 to get this doubling. The Exclusion is adjusted every few years for inflation.

The Gift Tax Exclusion can be used to give up to \$14,000 or \$28,000 per year to as many people as you wish.

If your gifts in any one year to any one person exceed the Exclusion (\$14,000 or \$28,000), you can use part of your *Lifetime Estate and Gift Tax Exemption* to avoid paying tax on the gifts exceeding the Exclusion. For 2015 the Lifetime Exemption is \$5,430,000 per person; for 2016 it is \$5,450,000 per person. For married couples these amounts are doubled to \$10,860,000 in 2015 and \$10,900,000 in 2016

Most people will never have estates that exceed the Lifetime Exemption, so using part of the Lifetime Exemption to avoid Gift Tax is advisable, and no Gift Tax or Estate Tax will ever need to be paid. *Professional Estate and Gift Planning* are essential for those with estates that might exceed the Lifetime Exemption.

Documents Every Person Should Have

Everyone, regardless of age, can be injured, become sick, incapacitated, or die. So *everyone* needs these basic documents which should be prepared by an attorney who is licensed and practicing in your state of residence, and who specializes in Estate and Trust Matters. *If you change your state of residence, all of these documents should be reviewed an attorney in your new state of residence, as some changes might be necessary to comply with the laws of your new state.*

1. Your **LIVING WILL** states your wishes in the event you fall into a coma or other similar condition from which you are extremely unlikely to recover. The Living Will details whether or not you want extraordinary means to be used to keep you alive. Copies are usually acceptable.
2. Your **HEALTH CARE POWER OF ATTORNEY** designates one or more people to make health and medical decisions for you if you are unable to do so. Copies are usually acceptable.

In some states (such as New York), the Living Will and Health Care Power of Attorney are combined into a single document called a **Health Care Proxy**.

We advise that you keep a copy of your Living Will and Health Care Power of Attorney (or Health Care Proxy), and list of your current medications in your car, and pack them with you when you travel. Seniors are advised to also keep these documents in an obvious and convenient place in their homes. Some people carry them on red- or orange-colored thumb drives with their keys or on a necklace.

3. Your **DURABLE POWER OF ATTORNEY** designates one or more people to act on your behalf in non-health matters, such as financial decisions. In most states, only the document with *original signatures* is valid.
4. Your **WILL** describes what should happen to your property in the event of your death. In most states only the Will with *original signatures* is valid. Your Will appoints one or more people (Executors or Personal Representatives) to handle your affairs after you die. Depending upon state law, your will might be required to be filed with a Court, a process referred to a **probate**.
5. A **REVOCAABLE LIVING TRUST** is especially important in states (such as Arizona) that have complicated and/or expensive procedures for *probating* a Will. You transfer all your assets to the Trust, leaving you owning almost nothing, thereby avoiding the need to probate your Will. The Trust Document (which creates the Trust) then governs what happens to your property and who takes care of everything (the Trustee(s)). You remain the Trustee for as long as you wish, or as long as you are able to. The creator of the Trust can change it at any time, or completely dissolve the Trust. For all practical purposes (except legal), it's as if the Trust did not exist. Therefore, this type of Trust is ignored for tax purposes. The Trust uses your Social Security Number as its Tax ID.



2015 Changes are summarized on the following pages.

Our best wishes to all for a great New Year.

Watch for more tax changes in 2016. Our News Flashes and Newsletters are posted on our website www.famtax.com.

Please feel free to call or write if you have any questions.

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 and 

Expiring Tax Provisions Extended	Expires End of
Individual Deductions	
\$250 deduction for certain expenses of elementary and secondary school teachers.	Permanent
Choice to deduct state and local general sales taxes if greater than state income tax.	Permanent
Itemized deduction of mortgage insurance premiums as qualified residence interest.	2016
Exclusions from Income	
Up to \$100,000 tax-free treatment of qualified charitable distributions from IRAs for individuals age 70½ or older.	Permanent
\$2,000,000 exclusion for qualified forgiveness of principal residence indebtedness.	2016
Individual Tax Credits	
Many energy efficiency credits	Some extended
Education Deductions & Credits	
Deduction for up to \$4,000 of qualified tuition and related expenses.	2016
Depreciation, Amortization & Other Business Deductions	
\$500,000 limit on immediate write-off of depreciable assets (Section 179 depreciation).	Permanent
15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements.	Permanent
50% bonus depreciation - additional first-year depreciation for qualified property through 2017, 40% in 2018, 30% in 2019	2019
Extra \$8,000 first year depreciation for business automobiles & trucks through 2017, \$6,400 in 2018, \$4,800 in 2019.	2019
The right to revoke or alter a Code Sec. 179 expensing election without IRS's consent	Permanent
Qualified property for Section 179 expense includes computer software.	Permanent

2015-2016 Inflation and Other Adjustments:

	2015	2016
Auto mileage rate for business	57.5¢ per mile	54.0¢ per mile
Auto mileage rate for medical & moving expenses	23.0¢ per mile.	19.0¢ per mile.
Auto mileage rate for charity	14¢ per mile	Same
Long-Term Capital Gains Rates	In 10-15% brackets: 0% In 15-36% brackets: 15% In 39.6% bracket: 20%	Same
Maximum IRA & Roth IRA contribution	\$5,500 plus extra \$1,000 if over age 50	Same
Maximum SEP & other defined contribution plans	Lesser of \$53,000 or 25% of compensation	Same
Maximum 401(k),403(b),457 Plan contribution limit	\$18,000 plus extra \$6,000 if over age 50	Same
Maximum wages taxable for Social Security	\$118,500. Maximum employee tax = \$7,347.00	Same
Social Security Tax Rate	6.2%	Same
Medicare Tax Rate	1.45%	
Annual Gift Tax Exclusion (per person receiving gifts)	\$14,000 (\$28,000 if married)	Same
Estate Tax Exemption	\$5,430,000	\$5,450,000
Personal & Dependent Exemption	\$4,000	\$4,050
Standard Deduction	Married: \$12,600; Single: \$6,300; Head of Household: \$9,250	Married: \$12,600; Single: \$6,300; Head of Household: \$9,300
Additional Standard Deduction for Age 65 or Blind	Married: \$1,200 per spouse Unmarried: \$1,550	Same
Alternative Minimum Tax Exemption	Married: \$83,400; Single or Head of Household: \$53,600; Married filing Separately: \$41,700	Married: \$83,400; Single or Head of Household: \$53,900; Married filing Separately: \$41,700
Foreign Earned Income Exclusion	\$100,800	\$101,300
Flexible Benefit Account Maximum	\$2,550	Same