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THE STRAUSS REPORT

Winter 2016

FILING SEASON 2016: Another Year and still absolutely no simplification...

The tax filing season began on January 19th, but most of us have received almost no 1099s. We are still trying to make sense of the new tax law Protecting Americans from Tax Hikes (or PATH) that was passed on signed at the very end of 2015. We are also dealing with the provisions of the Affordable Care Act and health care issues as well as the changes in Medicare costs which surprised many of us. And the threat of identity theft and phony calls to collect overdue taxes (called pfishing) are worrisome not only to you, but also to us and to the IRS which loses over \$6 billion per year due to false tax returns. In addition, due to drastic cuts (over \$346 million during the remaining nine months of this fiscal year) in the IRS budget for 2015-16, the IRS has the lowest level of funding since 2008 (or comparable to 1998 adjusted for inflation). What this means is that you (and we) can expect very long telephone wait times (if you can get though at all), delays in refunds, delays in processing responses to IRS notices, huge delays in identity theft protection and IT upgrades and about 15,000 less employees than in 2010.

In this issue of **The Strauss Report**, we will discuss the changes for your 2015 Federal and IL returns - and the work you may need to do prior to your tax appointment. We will also review things that could trip us up this year like the new ACA tax provisions, home sales, capital gains from stock or mutual funds, debt forgiveness, and inherited money (including 401Ks and IRAs). And, finally, we will explain what we know for 2016 and beyond - including IRS and IL notices and pfishing calls.

WHAT DO YOU NEED TO KNOW FIRST?

- **PATH made permanent** the following provisions that impact many of us:
 1. State and local Sales Tax Deduction on Schedule A
 2. The Qualified charitable distribution (QCD) from an IRA of up to \$100,000 per year
 3. The \$250 deduction for educator expenses
- Due to many false tax returns (often filed early in the year to get refunds before you file your taxes, **IL will not be issuing refunds until after March 1**. Then refunds will be processed from the date the return is filed, so many of us will not get IL refunds until May. In addition, when you check for your IL refund online, you will need the amount from Line 1 of your IL 1040 in addition to your Social Security number and amount of the refund.
- **Medicare costs increased substantially for many taxpayers.** If you are filing for Medicare for the first time, your monthly premium is \$121.80 vs. the prior premium of 104.90 or a **16% increase**. This is also true if you don't get Social Security benefits and/or are billed directly for your Part B premiums (such as retired government workers and others). **In addition, depending on your Adjusted Gross Income on your prior year 1040, you (and your spouse) may pay more- often a lot more than the basic amount.** For example if your AGI is above \$85,000-**\$107,000** (Single) or \$170,000-\$214,000 (Married) your premium goes up to \$170.50 for each spouse! It is even more if your income is higher. This is a year by year computation, so if you have the premium in 2016 and your AGI is less when we file your tax return, it will go back down- but not until January 2017!
- The **due date** is not April 15th this year; it has been extended to **April 18th** since the 15th is a holiday in Washington D. C.
- If you had an Identity theft problem in 2015 for your 2014 tax return, you should have received an **Identity Protection PIN number in a letter from the IRS**. WE will have to use this number on your 2015 tax filing. However, the IRS notices had the wrong year- but we were told that the PIN number you received is good for your 2015 filing.

- **Health Care Insurance Coverage requirements** - there was supposed to be a Form 1095-A, or 1095-C (to employees from their employer) received showing you had health care coverage all year and for whom in your family. This was included on our Check off Listing. However, the IRS extended the due date for the 1095-C to March 31, 2016 and we will be able to file using your word that you had coverage - using the same check off box as in 2015. The only taxpayers that need a 1095-A are the ones who bought insurance through an exchange. For those or for taxpayers who did not have health coverage for the entire year, Forms 8962 or 8965 need to be completed and filed for either a health care credit or penalty on your 1040. Not simple!

WHAT IS STILL WITH US FROM PRIOR TAX LAW CHANGES?

1. The **lower tax rates** from 2001- along with the -0%- and 15% rates on qualified dividends and long term capital gains are still in effect for most of us.
2. **Rates for higher income taxpayers** have increased substantially: the rate for ordinary income of 39.6% applying for adjusted gross income above \$413,200 for Singles and \$464,850 for Married Joint filers. The 20% rate for qualified dividends and long term capital gains is also for these higher income taxpayers These new rates begins at \$12,400 for trusts and estates on Form 1041!
3. **The 3.8% Medicare surtax is on investment income and the 0.9% Medicare surtax on salaries and self employment income.** The Medicare surtax may effect more taxpayers since it is for over the lesser of investment income or \$250,000 AGI married and \$200,000 single. Investment income is defined as: (1) Interest, dividends, annuities, royalties, and rents; (2) income from a business in which the taxpayer does not personally, materially participate, and business income from trading and financial instruments or commodities and (3) Capital gains and other net gains from the sale of property. The 0.9% surcharge is for total salary and self employment income - so even if each spouse makes less, if the total wage and self employment income is over \$250K, the surcharge applies. There are two tax forms, 8959 and 8960 for these two computations.
4. **Disappearing itemized deductions and vanishing exemptions** are back for higher income taxpayers - with new worksheets. They start at \$309,900 for Married Joint and \$258,250 for singles and - and exemptions can actually decrease to -0!
5. **Medical Expenses have a new higher threshold.** If you are under 65, that threshold is now 10% of Adjusted Gross income. If you are over 65 - just one of a married couple, the threshold stays at 7 1/2% through tax year 2016.
6. **Direct Deposit restrictions** are in place for both the IRS and IL. **For the IRS**, only three direct deposit refunds can be made per financial account (subsequent refunds convert to paper checks). The direct deposit can only go into an account bearing the client (taxpayer's name). **For IL**, all first time filers are required to get paper checks- there is no direct deposit. This is particularly relevant for your "children" who file and often move - since the tax refund checks are not forwarded. You may want to put your (parents) address on the tax return so they get their refunds.
8. **The IL postcard 1099G** is to report your IL refund from 2014- if you got one. If you itemized using IL income taxes (not sales tax) we will have to include this as income on your 1040. Most of us will not get a this postcard. The good news is that the information is available on the IL Department of Revenue website: <http://www.revenue.state.il.us>
10. **Schedule D** for stock and mutual fund sales was revised in 2011 and is still with us - as is the new reporting form 1099B from your stock broker or Mutual Fund Company.
 - The 1099B has a section (Box 3) that may or may not have the cost basis of the asset that you sold included.
 - You need to check this box - because the amount included may or may not be correct. It should be correct for assets bought in 2011-14 and sold during tax year 2015.
 - If you brought the asset from a different broker or inherited it or transferred it or reinvested dividends, the amount, if any, is probably not correct. Check with your mutual fund company as well – often their average cost basis is not accurate.
 - We must use Form 8949 and Schedule D for all sales.

- If you need to compute cost basis with us for a sale, please call us and we will tell you what you and we need – and then may need to set up an initial appointment to do the basis computations prior to your return preparation appointment. Not simple indeed!
- The IRS will be matching cost basis information from the Form 1099B with that on your tax return so we need to be sure we have accurate information.

11. **Energy Credits are still with us for 2015, but in a much reduced format.** First, the total available credit on Form 5695 is \$500 – but **only** if you have not used more than that amount on prior tax returns back to 2006. Second, each item - windows, doors, water heaters, and furnaces has a limit on the credit available if you qualify. The amount available for the credit is now only 10% of the amount spent - not too generous indeed! You will need to bring prior tax returns – 2006 - 2014 to us at your appointment if you were not a client of Strauss Tax during those years and think you are eligible for an energy credit.

12. **The tax rate for IL is 3.75% as of January 1, 2015 and going forward.** There is still no budget in the State of IL and Governor Rauner said (for now) he does not want to increase tax rates and has instead proposed sales tax on services. IL still has a line on your IL 1040 for **Use Tax** (tax on internet or out of state purchases). However, you will probably notice that both your assessment for your home (or condo) has gone up substantially and will be followed up by a much larger real estate tax bill in 2016. This is one place where the local governments can raise taxes and get more revenue....

STILL MORE THINGS TO WATCH OUT FOR THIS YEAR....

Home Sales. Most of us stayed put in 2015 and were thankful we did not have a huge mortgage. However, some of us sold vacation homes or land - often in another state. These are not eligible for the exclusion for principal residences. There will be capital gains on the sale (and no deduction for any loss unless the property/home was used as an investment and not for personal use) as well as a tax return for another state if the property was located outside of IL.

Medical Expenses. Our out of pocket medical expenses keep increasing - especially dental, prescription drugs, long term care insurance and nursing home fees. If you are retired, check how much is deducted from your pension for medical insurance; if you are working, only post tax medical expenses (not pretax or Section 125 flexible spending accounts) are tax deductible as medical. Exercise and physical therapy or rehabilitation count if for medical conditions such as heart disease. Many more clients are itemizing than in the last few years. Be sure to get the medical percentage letter from the nursing or retirement home and a listing of expenses per month with the expense codes. Pharmacies and many doctors can also provide annual statements of expenses paid out of pocket - so call them ahead of your appointment. In addition, check if you received reimbursement for Long Term Care and received a 1099LTC.

Investment Advisory Fees. Fees for managing your investment portfolio (for taxable income) paid to a bank or brokerage firm are MISC itemized deductions.

K-1s. If you are the beneficiary of a Trust or an Estate, a partner in a Partnership or a shareholder in a Corporation, watch out for K-1s. These are forms from the tax return of the tax entity that show the income and deductions credited to you and required to be included on your personal income tax return. We prepare many, many Estate and Trust tax returns (1041 forms) as well as final 1040 returns when someone passes on - and can explain what needs to be done. Call for our Estate and Trust Check off List.

JUDI STRAUSS IN PRINT, ON MEDIA

Our Website - www.strausstax.com - is your best source for tax news. We continue to post tax tips, our newsletter, workshop dates and links to important tax and financial websites and articles. We are also on Facebook. **Be sure to "like us" and tell your friends as well.** They do not have to be clients to be our FB friend and keep up to date on important tax news.

TAX TIDBITS

- **Sometimes 1099 forms are delayed or not final.** Please make sure you have all **final** 1099 forms

when you call for your appointment. (If you have K-1s or really late forms, you may want to set up two appointments so we are sure to complete your taxes on time this year).

- The **Estate Tax exclusion** for 2016 is \$5,450,000. **Gifts** can still be up to \$14,000/person.
- **Watch out for tax surprises:** unemployment benefits are taxable as is forgiven credit card debt (1099C).
- We continue to hear from taxpayers who have received unsolicited calls or emails from individuals demanding payment while fraudulently claiming to be from the IRS. Potential phone scam victims may be told that they owe money that must be paid immediately to the IRS. When unsuccessful the first time, sometimes phone scammers call back trying a new strategy. **The IRS only sends notices; they never call or email.**
- **Annuities and Managed Investment accounts** are being “sold” by brokers and investment advisors as an alternative to CDs since the interest rates are so low now and the stock market can be uncertain. Check if the returns (after fees) are worth it - and look at any surrender charges. We work with clients to review broker proposals and help you plan your pre tax (401K) and post tax portfolios on our per hour basis.
- **Strauss Tax Service is a registered IRS and IL E filer.** With E filing, we call you when your return has been received and was “accepted” without any errors in preparation. Your refunds are deposited in your bank account. We can also debit amounts due for a specific date.

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DON'T FORGET TO BRING – FOR YOUR APPOINTMENT:

- All original documents
- Histories of stock/mutual fund sales
- Medical expenses and Charitable contributions - to check itemized
- Sales Tax information
- Closing Statements on old and new houses
- Parcel number - principal residence (and county too!)
- 1098T (tuition) forms for credit or adjustment
- Year – end IRA statements – and previous 8606 forms if filed
- ES payments and cancelled checks
- Bank information (routing number/ account number) for refund or withdrawal
- Any new information for 2016 withholding or Estimated Taxes

