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Mid-Year Update

Tax & Accounting

2016 Whole Ball of Tax

2016

Whole Ball of Tax

From Wolters Kluwer Tax & Accounting

Your premier resource for tax season updates and expertise is now at your fingertips with the *2016 Whole Ball of Tax*.

In addition to full summaries and analysis of a variety of tax topics and developments over the past year, here's a brief look at some new key developments affecting taxpayers:

Personal Exemption, Standard Deduction Increases — For the current tax season, the inflation-adjusted personal exemption amount that taxpayers can claim on Form 1040 is $4,000 — up $50 from last tax season.

Standard Deductions for 2015 Tax Filings:

- Single or Married and filing separately — $6,300 (up $100)
- Head of household — $9,250 (up $150)
- Married and filing jointly and qualifying widow or widower — $12,600 (up $200)
- Qualifying dependent — Greater of either $1,050 or $350 plus dependent's earned income up to $6,300

Newly-made Permanent Tax Provisions:

- Charitable distributions from Individual Retirement Accounts (IRAs) — Covering retirees age 70.5 or older making tax-free contributions of up to $100,000 from their IRAs to qualified charitable organizations.
- The enhanced Child Tax Credit — Up to $1,000 for dependents under age 17 with a $3,000 earned income threshold amount for the refundable portion.
- Transit Benefits Parity — Including transit passes and van pool benefits.
- Greater Code Sec. 179 expensing limits for smaller businesses — Permanent $500,000 expensing limit with inflation adjustments and a $2 million overall investing limit before phase-out. (*See Release 3 for tax deduction and credit updates*)

Married Tax Status Recognition — In June of 2015, the Supreme Court's 5-to-4 decision in the case of *Obergfell v. Hodges* (2015-1 ustc ¶50,357), clarified that the 14th Amendment requires a state to license a marriage between two people of the same sex and to recognize a marriage between two people of the same sex when a marriage was lawfully licensed and performed out of state. The decision effectively ended the necessity for same-sex couples in states that did not recognize same-sex marriage to have to file as single individuals for state tax purposes. (*See Release 3*)

Health Insurance Tax Credit — The new credit is available for those who purchased health insurance through exchanges set up by the Affordable Care Act (ACA). Qualifying recipients also must have a household income during the tax year that is between 100 and 400 percent of the Federal Poverty Level (FPL). (*See Release 7*)

Form 1095 Paperwork — Form 1095-B and Form 1095-C for employee health care coverage had been optional for employers to provide, but are now mandatory. (*See Release 7*)

Much more guidance, information and updated statistics are available in the full Whole Ball of Tax 2016 edition, which is also available online at: CCHGroup.com/WBOT2016.

As always, federal and state tax experts from Wolters Kluwer Tax & Accounting are available for media interviews to help explain all the details during tax season and for tax-related stories throughout the year.

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Wolters Kluwer Tax Experts

(RIVERWOODS, IL, January 2016) — Wolters Kluwer Tax & Accounting, a division of Wolters Kluwer, is a leading provider of software solutions and local expertise that helps tax, accounting, and audit professionals **research** and navigate complex regulations, **comply** with legislation, **manage** their businesses and **advise** clients with speed, accuracy and efficiency. The company produces hundreds of products annually related to federal, state and international taxation. More than 250 tax analysts and editors, most of whom are attorneys or accountants, provide professionals with tax information on a daily basis. Analysts available to speak with reporters include:

Individual and Corporate Taxation

Mark Luscombe, JD, LLM, CPA
Principal Federal Tax Analyst
Mark Luscombe, a CPA and attorney, is the principal federal tax analyst for the company, tracking and analyzing legislation before Congress. Luscombe is the current chair of the Important Developments Subcommittee of the Partnership Committee of the American Bar Association Tax Section and regularly speaks on a wide range of tax topics. In addition, Luscombe co-authors a monthly tax strategies column for the respected professional publication *Accounting Today* and authors a monthly tax trends column for *TAXES* magazine. Prior to joining Wolters Kluwer, he was in private practice for almost 20 years with several Chicago-area law firms where he specialized in taxation.

Luscombe offers a thorough understanding and analysis of federal tax, its application and its impact on both the individual and corporate taxpayer.

George Jones, JD, LLM
Senior Federal Tax Analyst
George Jones has been active in the tax field for over 35 years. As managing editor in Wolters Kluwer Tax & Accounting's Washington D.C. office, Jones is responsible for overseeing legislative information at Wolters Kluwer. In addition, Jones is editor of *CCH Federal Tax Weekly*; *CCH Expert Treatise*; *Federal Taxation of Corporations and Shareholders;* and co-authors a regular tax strategies column for the respected professional publication, *Accounting Today.*

Jones keeps his finger on the pulse of the IRS, Congress, and the tax and accounting profession.

John W. Roth, JD, LLM
Senior Federal Tax Analyst
John W. Roth is a senior federal tax analyst specializing in the day-to-day application of tax law across a wide range of tax topics. He provides practical insight and guidance into how tax laws apply to individuals, corporations and special entities. Roth is a contributing author to Wolters Kluwer's *Standard Federal Tax Reporter*, the *Tax Research Consultant*, the *U.S. Master Tax Guide*, the *Practical Tax Explanations*, and the *1040 Tax Prep Partner.* Roth has been a regular presenter of tax update seminars to professional accounting organizations, as well as a presenter in the CCH Audio Seminar series on tax legislation updates. He has been quoted by *The Wall Street Journal*, the *Associated Press* and spoken on *National Public Radio*. He joined Wolters Kluwer from a national tax preparation service where he was responsible for its premier tax preparation services and trained other employees for the company's advanced services.

Roth provides an excellent understanding of the practical application of the complex requirements of federal tax laws.

Mildred Carter, JD
Senior Federal Tax Analyst
Mildred Carter has extensive background in federal tax analysis and specific expertise in individual and small business and corporate tax planning issues. As a senior federal tax analyst, she is an important contributor to Wolters Kluwer's coverage of new Tax Legislation in the *Law, Explanation and Analysis* books. She also contributes to two of the most popular tax professional references

in the country, the *CCH Tax Research Consultant* and the *Standard Federal Tax Reporter* and has developed and authored several interactive research aids, which are available online through *CCH IntelliConnect*.

Concentrating on the impact of federal tax laws, Carter provides in-depth explanations and analysis of tax law provisions.

Estates, Wills And Trusts

Bruno Graziano, JD, MSA
Senior Estate And Gift Tax Analyst
Bruno Graziano is an attorney with a master's degree in accountancy and is a senior analyst for Wolters Kluwer Tax & Accounting's Financial and Estate Planning Group. An employee for 28 years, he oversees the editors and analysts responsible for two of the most respected Wolters Kluwer subscription products, *Financial and Estate Planning* and *Estate Planning Review – The Journal*. Prior to joining Wolters Kluwer, Graziano was an assistant attorney for an Illinois municipality.

Graziano has a detailed knowledge of gift and estate taxation, wills, trusts and related tax law.

State Taxation

Carol Kokinis-Graves, JD
Senior State Tax Analyst
As a senior state tax analyst in the Sales and Use Tax Group, Carol Kokinis-Graves analyzes and reports state and local sales and use tax issues. She researches and covers state legislation, court cases, department of revenue rulings, and regulations. Kokinis-Graves has developed and authored several interactive research aids (logic tools), and has authored a continuing professional education (CPE) course for accountants. She has written several articles, including those that have appeared in *State Tax Review, The Journal of State Taxation*, and *Practitioner Perspectives*. Kokinis-Graves is a speaker on state and local tax (SALT) issues, and has been quoted in various publications, including *The Los Angeles Times*, *The Chicago Sun-Times*, *The Washington Times*, *USA Today*, *Forbes*, *Reuters*, *NBC News*, *The Tax Foundation*, *Market Watch*, and *Accounting Today*.

Kokinis-Graves possesses a thorough knowledge of state and local sales and use taxes.

John Logan, JD
Senior State Tax Analyst
John Logan is an attorney and senior state tax analyst who has spent more than 25 years tracking and analyzing state tax statutory and case law, as well as state tax regulatory policy. He is a contributor to *CCH IntelliConnect*, which includes *State Tax Review*, a weekly newsletter that reports on tax news at the state level, as well as *State Tax Reporters*, *State Tax Guide*, and the *Multistate Corporate Income Tax Guide*.

Logan has a thorough understanding of the various state taxes imposed, as well as taxation trends across all states.

Rocky Mengle, JD
Senior State Tax Analyst
Rocky Mengle is an attorney and state tax analyst and has spent the last 15 years analyzing state tax legislation, case law, and regulatory developments. He is a contributor to Wolters Kluwer's *State Tax Handbook* and *CCH IntelliConnect*, which includes *State Tax Reporters*, *Multistate Corporate Income Tax Guide*, and various interactive SmartCharts. He has been quoted in various publications, including *U.S. News and World Report*, Reuters, and *Accounting Today*.

Mengle offers a detailed understanding of state personal and corporate income taxation and trends across all states.

International Taxation

Joy Hail, JD, LLM
International Tax Analyst and Managing Editor
Joy Hail is the managing editor of International Tax for Wolters Kluwer Tax & Accounting. She also is managing editor of the company's bimonthly *International Tax Journal* as well as an expert in international Base Erosion and Profit Sharing (BEPS). Hail is the author of the new publication, *Base Erosion and Profit Sharing (BEPS) — Are You Ready*, which provides practical guidance on country-by-country reporting of the current BEPS action

plan. The guide covers each of the 15 actions outlined by the Organisation for Economic Co-operation and Development (OECD) and analyzes the U.S. position on BEPS and the impact BEPS will have.

Hail monitors continuing changes in international tax compliance affecting cross-border transactions and is an important contributor for updated research and learning content covering international taxation developments.

About Wolters Kluwer Tax & Accounting

Wolters Kluwer Tax & Accounting is a leading provider of software solutions and local expertise that helps tax, accounting, and audit professionals research and navigate complex regulations, comply with legislation, manage their businesses and advise clients with speed, accuracy and efficiency.

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What's New and What's Changing for Tax Season?

Wolters Kluwer Updates the Latest Changes and Need-to-know Facts for Taxpayers

(RIVERWOODS, IL, January 2016) — Many tax preparation questions were finally answered when the Protecting Americans from Tax Hikes (PATH) Act of 2015, along with a related omnibus spending bill, was signed into law in December. Unlike recent end-of-year tax legislation that temporarily kept certain tax-extender measures from expiring, the PATH Act created $622 billion in tax breaks and generated many permanent Tax Code changes.

The tax break incentives that were made permanent in the PATH Act include:

For Individual Taxpayers:

- The enhanced Child Tax Credit — Up to $1,000 for dependents under age 17 with a $3,000 earned income threshold amount for the refundable portion
- Transit Benefits Parity — Including transit passes and van pool benefits
- Charitable distributions from Individual Retirement Accounts (IRAs) — Covering retirees age 70.5 or older making tax-free contributions of up to $100,000 from their IRAs to qualified charitable organizations
- The American Opportunity Tax Credit (AOTC) — Covering education expenses
- The Teachers' Classroom Expense Deduction for elementary and secondary school teachers
- The enhanced Earned Income Credit (EIC) — Permanent 45-percent credit for those with three or more qualifying children and reduced marriage penalty
- The option of claiming itemized deductions for state and local sales taxes instead of deducting state and local income taxes

For Businesses:

- Greater Code Sec. 179 expensing limits for smaller businesses — Permanent $500,000 expensing limit with inflation adjustments and a $2 million overall investing limit before phase-out
- The Research Tax Credit — Covering specific increases in business-related qualified research expenses and payments to universities and qualified organizations for basic research

New, Temporary Health Care Related Provisions:

- A two-year delay for excise taxes in the Affordable Care Act (ACA) affecting taxpayers choosing more expensive health insurance plans, also known as "Cadillac Plans"
- A one-year moratorium on the ACA health insurance provider fee
- A two-year moratorium on the ACA's medical device excise tax

Full details are available in the Wolters Kluwer Tax Briefing, Protecting Americans from Tax Hikes Act of 2015.

Need-to-know Tax Season Checklist

☐ **Tax Filing Deadline Day is April 18 for Most** — You have a few extra days to file your taxes in 2016. Since Emancipation Day, an official public holiday in Washington, D.C. recognizing the day President Abraham Lincoln signed District of Columbia Compensated Emancipation Act in 1862, falls on Friday, April 15, tax filing deadline day is on Monday the 18th. Residents in Massachusetts and Maine will have until Tuesday, April 19th to file returns. Both states observe Patriot's Day on the 18th, commemorating the battles of Lexington and Concord.

☐ **Health Care-related Taxes and Penalties** — For 2015 tax filings, Americans who did not purchase health insurance last year as required by the Affordable Care Act mandate, and do not qualify for an exemption, must pay a penalty of two percent of their household income or $325 per person, depending on which is greater (scheduled to go up to 2.5 percent or $695 for 2016 taxes).

Some taxpayers may also be responsible for:

- The 3.8-percent Net Investment Income (NII) Tax — which applies to the lesser of net investment income or modified Adjusted Gross Income (AGI) in excess of $200,000 for single filers and $250,000 for married, joint return filers.
- The 0.9-percent Additional Medicare Tax — which took effect for 2013 taxes applying to earned income in excess of $200,000 for single filers and $250,000 for married, joint return filers.

☐ **Personal Exemption, Standard Deduction Increases** — For the current tax season, the inflation-adjusted personal exemption amount that taxpayers can claim on Form 1040 is $4,000 — up $50 from last tax season. The personal exemption works like a tax deduction and enables qualifying taxpayers to claim the amount and lower their taxable income. However, those who are claimed as a dependent by another taxpayer are not eligible for their own personal exemption.

Standard deductions for 2015 tax filings are:

- Single or Married and filing separately — $6,300 (up $100)
- Head of household — $9,250 (up $150)
- Married and filing jointly and qualifying widow or widower — $12,600 (up $200)
- Qualifying dependent — Greater of either $1,050 or $350 plus dependent's earned income up to $6,300

IRS guidelines apply for qualifying children and qualifying relatives who may be claimed as dependents. Taxpayers may also be eligible for additional tax credits related to their qualified dependents, such as the child and dependent care tax credit.

☐ **Top Tax Bracket for High-income Earners** — The top tax rate remains 39.6 percent, which applies for 2015 tax filings to:

- Single taxpayers on taxable income above $413,200
- Filing as head of household on taxable income above $439,000
- Married filing separately on taxable income above $232,425
- Married filing jointly or surviving spouses on taxable income above $464,850

The top tax rate on long-term capital gains and dividends remains at 20 percent for those same taxpayers.

☐ **Alternative Minimum Tax (AMT) Adjustments** — After years of temporary patches to help middle-income earners avoid the AMT, the AMT exclusion amount was increased in 2013 and permanently indexed for inflation. For 2015 tax year filings, the AMT exemption amount is:

- $53,600 for individual taxpayers (up from $52,800 in 2014)
- $41,700 for married couples filing separately (up from $41,050 in 2014)
- $83,400 for married filing jointly (up from $82,100 in 2014)

- ☐ **Higher Estate, Gift Tax Exclusion Amounts** — The tax-exempt threshold value on estates of those who die in 2016 and for gifts made increases to $5,450,000 (up $20,000 from last year). The same amount also applies to the Generation-Skipping Transfer (GST) tax exemption. Now, estates, lifetime gifts and GSTs of $5.45 million or lower are not subject to estate or gift taxes.

- ☐ **IRA Contribution Limits** — The maximum annual amount that taxpayers can contribute to their Individual Retirement Accounts (IRAs) remains unchanged at $5,500. The additional catch-up contribution limit for individuals aged 50 and over stays at $1,000.

- ☐ **Married Tax Status Recognition** — In the Supreme Court's 5-to-4 decision on June 26, 2015 in the case of Obergfell v. Hodges (2015-1 ustc ¶50,357), the Court ruled that the 14th Amendment requires a state to license a marriage between two people of the same sex and to recognize a marriage between two people of the same sex when a marriage was lawfully licensed and performed out of state. The decision effectively ended the necessity for same-sex couples in states that did not recognize same-sex marriage to have to file as single individuals for state tax purposes. In 2013, the IRS began recognizing all legally married same-sex couples throughout the nation as "married" for federal tax filings, whether or not they lived in jurisdictions that recognized same-sex marriage at the time.

- ☐ **Education Tax Breaks** — The American Opportunity Tax Credit has been made permanent. Interest deductions for qualifying student loans as well as employer-provided education assistance benefits became permanent in 2013. Provisions in place for Coverdell Education Savings Accounts are also permanent.

  Permanent State Sales vs. State Income Tax Deduction Option — As stated above, a provision in the PATH Act of 2015 has made the option of claiming itemized deductions for state and local sales taxes instead of deducting state and local income taxes permanent. Previously, temporary tax break extensions allowed those who itemized deductions to claim their total state income or state sales taxes on their federal tax return — depending on which provided the better tax benefit, but not both. With the provision now permanent, those living in states without an income tax will continue to be able to deduct sales taxes.

- ☐ **Base Erosion and Profit Sharing (BEPS)** — BEPS refers to international efforts to prevent multinational companies from shifting profits to low- or no-tax jurisdictions. In December 2015, the IRS issued proposed rules governing country-by-country reporting by any U.S. person that is the "ultimate parent entity" of a multinational enterprise (MNE) group. BEPS rules and regulations are designed to create greater international tax reporting transparency, clarify how a tax jurisdiction for an international business is determined and would mostly pertain to tax treatment of business profits invested outside the United States. Proposed BEPS rules are not expected to take hold until 2017 at the earliest.

- ☐ **ABLE Act** — The Achieving a Better Life Experience (ABLE) Act, was enacted in 2014 and begins for 2015 taxes, although states may not be set up to offer accounts until 2016. It creates tax-favored savings accounts for individuals with disabilities along with some tax-related offsets.

- ☐ **Final Repair Regulations and MACRS** — Final repair, capitalization and tangible property regulations from the IRS became effective in 2014. They include the Modified Accelerated Cost Recovery System (MACRS) rules applying to businesses when it comes to the capitalization and expensing of physical assets that are purchased, repaired, improved or disposed of. Full details are in this Wolters Kluwer Tax Briefing.

About Wolters Kluwer Tax & Accounting

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Your Personal Tax Information Has Fallen into the Wrong Hands, Now What?

Wolters Kluwer Offers Taxpayer Guidance for Avoiding ID Theft and Tax Scams

(RIVERWOODS, IL, January 2016) — Getting the upper hand in preventing identity theft is a growing concern for taxpayers who may not realize they've been scammed until they try filing their return. Overall in 2014, ID theft in general impacted more than 9.9 million Americans and cost them about $5 billion in losses according to the U.S. Postal Inspections Service.

According to the Internal Revenue Service (IRS), tax-related identity theft occurs when someone's stolen Social Security number (SSN) is used for filing a tax return claiming a fraudulent refund. Identity thieves are known for using stolen SSNs to file a false return early in the year — leaving victims unaware that anything is wrong until they try filing a tax return and find out someone already filed a return with their SSN.

One way criminals steal SSNs is by calling or emailing potential victims, claim they are with the IRS and scare taxpayers into providing their SSNs while demanding other personal information if they want to avoid legal hassles. That scenario is known as a "phishing scam," where criminals will conduct a virtual fishing expedition of calls and emails until they hook someone who thinks a real IRS agent is speaking.

For Taxpayers

In its Taxpayer Guide to Identity Theft, the IRS clarifies that neither it nor any legitimate organization, such as a bank or well-known business will ever seek personal information through unsecured e-mails or phone calls. Furthermore, the IRS states that it will never:

- Ask for credit or debit card numbers over the phone
- Require a single, specific tax payment method, such as a prepaid debit card
- Send unsolicited emails or calls anyone threatening lawsuits or prison time

If anyone believes they're the target of an ID theft scam, the IRS recommends reporting the incident to the Treasury Inspector General for Tax Administration (TIGTA) at 1-800-366-4484 and contacting the Federal Trade Commission (www.ftc.gov) through the FTC Complaint Assistant link.

The IRS also offers the following checklist steps to consider for protecting tax and financial information from scam artists:

☐ Read your credit card and banking statements carefully and often — watch for even the smallest charge that appears suspicious. (Neither your credit card nor bank — or the IRS — will send you emails asking for sensitive personal and financial information such as asking you to update your account).

☐ Review and respond to all notices and correspondence from the IRS. Warning signs of tax-related identity theft can include IRS notices about tax returns you did not file, income you did not receive or employers you've never heard of or where you've never worked.

☐ Review each of your three credit reports at least once a year. Visit annualcreditreport.com to get your free reports.

- ☐ Review your annual Social Security income statement for excessive income reported. Electronic accounts are available at the United States Social Security Administration.
- ☐ Read your health insurance statements; look for claims you never filed or care you never received.
- ☐ Shred any documents with personal and financial information. Never toss documents with your personally identifiable information, especially your Social Security number, in the trash.
- ☐ If you receive any routine federal deposit such as Social Security Administrator or Department of Veterans Affairs benefits, you probably receive those deposits electronically. You can use the same direct deposit process for your federal and state tax refund. IRS direct deposit is safe and secure and places your tax refund directly into the financial account of your choice.

For Tax Practitioners

The new publication from Wolters Kluwer Tax and Accounting entitled, Tax Practitioner's Guide to Identity Theft, is a comprehensive guide which explores federal and state statutes that criminalize identity theft, and the recent cooperative steps taken by the IRS, the Department of Justice, the FBI, the Secret Service, and the U.S. Postal Inspection Service to protect personally identifiable information and pursue identity thieves. It also provides 25 "best practices" that clients can employ to decrease the risk of both tax-related and non-tax related identity theft.

The *Tax Practitioner's Guide to Identity Theft* is available in print and as an e-book for computer and mobile device downloads.

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Wait, Can I Really Deduct That?

Wolters Kluwer Tax Experts Update Deductions and Credits That Are Easy to Miss

(RIVERWOODS, IL, January 2016) — Hitting the send button to e-file a tax return or dropping an envelope with completed forms in the mail is always a welcome relief, especially if a refund is expected. However, discovering that you missed taking a qualified deduction or suddenly learning you had a tax break you didn't take advantage of can turn relief into frustration.

Both deductions and tax credits can make significant impacts in reducing or offsetting taxes owed, but taxpayers must first find out whether they qualify for certain tax breaks and not assume they're covered.

"With several tax deductions and credits being extended and made permanent by the Protecting Americans from Tax Hikes (PATH) Act of 2015, many popular tax breaks have been adjusted and may now be available to tax filers who had not looked into them before," said John W. Roth, JD, LLM, EA and Senior Federal Tax Analyst for Wolters Kluwer Tax & Accounting. "Consulting a tax professional about potential deductions and credits that you may not be aware of is a good idea, but it pays to do a little research ahead of time so you know what to ask about."

Need-to-know Tax Deductions and Credits Checklist

☐ **Home Office Deduction** — The relatively new safe-harbor method for this deduction was introduced in 2013 for those who are self-employed and work out of their homes. It is based on the size of home office and is designed to be a simple calculation.

Here's how it works: Eligible taxpayers can deduct $5 for every square foot of workspace used — up to a maximum of 300 square feet. So, if you use a den or spare bedroom at home as your home office and it measures 18 X 15 feet for a total of 270 square feet — multiply that by $5 for a total home office tax deduction of $1,350.

The new safe-harbor option saves time compared to the standard home office tax deduction calculation of figuring related expenses and how they are apportioned over the course of the year to a home office. One taxpayer-friendly benefit is that one may choose which calculation, either the safe-method or the standard method, to use each year to provide the largest tax deduction.

☐ **Mortgage Debt Exclusion** — The new PATH Act of 2015 prevents forgiveness of mortgage debt from suddenly being counted as new taxpayer income, since the mortgagor no longer is making payments on the forgiven portion, but not pocketing the savings in cash. Those who qualify may benefit on a principal residence of up to $2 million ($1 million for a married taxpayer filing a separate return) through 2016. The Act also modifies the exclusion to apply to qualified principal residence indebtedness discharged in 2017 if discharge is made under a binding written agreement in 2016.

In other words, taxpayers who enter into a foreclosure, short sale or home loan adjustment in writing before December 31, 2016 but do not complete the transaction until after January 1, 2017 may qualify for the exclusion. Because the forgiven portion is not considered added income, taxpayers will not vault into a higher tax bracket or be taxed on that amount within their current bracket.

☐ **Home Mortgage Insurance Premium Deduction** — It's one of the more popular deductions that was extended through 2016 with passage of the PATH Act — allowing most homeowners to write off their home mortgage insurance premium as interest paid on a mortgage. Taxpayers can deduct

mortgage interest paid on their primary home and on a second or vacation home up to certain limits. In addition, mortgage interest on a line of credit or home equity loan, which is secured by the home, is also deductible within certain limits.

☐ **Charitable Donations** — Taxpayers who donate money or non-cash property to qualified charities may be entitled to a tax deduction. While charitable gifts via a check may be easiest to track, a bank record such as a cancelled check or a receipt or official acknowledgement of the donation from the charitable organization is a mandatory requirement for tax reporting.

Additional documentation is required to establish the fair market value of non-cash items. Also:

- Travel expenses associated with charitable volunteer activities may also be tax deductible.
- Charitable donations may be limited based on a percentage of adjusted gross income (AGI) depending on the type of organization and property donated.

☐ **Medical, Dental Expense Deductions** — Expenses related to diagnoses and treatment of medical and dental conditions may also be deducted from your income taxes, depending on how much you paid out of pocket compared to how much you earned.

The general rule is that qualified medical and dental costs that exceed 10 percent of a taxpayer's AGI may be deducted (7.5 percent for people age 65 or over). Typical expenses may include unreimbursed medical and dental bills, and the unreimbursed costs of equipment, supplies and devices prescribed by a physician or dentist for use in treating a condition.

☐ **Medicare Premium Deductions, Self-Employed** — Business owners and self-employed taxpayers may deduct health insurance premiums. Those who are old enough to qualify for Medicare and are also business owners or self-employed may deduct premiums paid for Medicare Part B, Part D and supplemental Medicare policies to guard against health care coverage gaps. However, the deduction is not available for anyone who is already covered under their or their spouse's employer's health plan.

☐ **Business Expense Tax Deductions** — For sole proprietors, self-employed workers, contractors and others incurring qualified business expenses related to their occupation, income tax deductions are available. In most cases, eligible business expenses must both be ordinary, something common and acceptable in that particular business, as well as necessary, something appropriate and helpful to the business or trade. The IRS requires that business expenses should be separated from other expenses used to figure the cost of goods sold, capital expenses and personal expenses. Furthermore, business expense deductions can only be taken once, either on an individual's income tax return or a separate business tax return — but not on both.

☐ **Child Tax Credit** — The maximum child tax credit of $1,000 per child age 17 or younger is now permanent. For taxpayers with nominal tax liability, a portion of the child tax credit may be refundable. However, the amount of the credit may be less, depending on income level.

☐ **Child and Dependent Care Credit** — This credit may be claimed by eligible taxpayers who paid work-related expenses for the care of a qualifying individual in order for an eligible taxpayer to be able to work or look for employment. It is a percentage of the amount paid to a care provider and depends on a taxpayer's AGI. A dependent child must be under 13-years-old when care was provided to qualify.

☐ **Adoption Credit** — Newly adoptive parents are eligible to claim up to $13,400 per child for 2015 taxes (a $210 increase from 2014). However, the credit decreases for those with a modified adjusted gross income (MAGI) of more than $201,010. Plus, taxpayers with a MAGI of more than $241,010 cannot claim the credit.

The adoption credit was also made permanent in 2013 and it's the largest nonrefundable tax credit available to individuals. Those claiming the credit on their income taxes must file Form 8839, Qualified Adoption Expenses. Documentation of qualified adoption expenses, including any adoption decree or court order, should be retained with copies of the tax return.

☐ **Earned Income Tax Credit (EITC)** — The PATH Act made permanent the EITC increase ($5,000) in phase-out amounts for joint tax return filers. The Act also made permanent the increased credit of 45 percent for taxpayers with three or more qualifying children. Without the changes, both enhancements were set to expire in 2017.

The EITC is a refundable federal tax credit aimed at helping low and moderate income workers keep more of their paychecks. It was enacted in 1975 to offset Social Security taxes for those who qualify and as an incentive for more people to join the workforce. When the EITC exceeds the amount of taxes to be paid, it can then generate a tax refund for eligible taxpayers who claim the credit.

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Avoid Tax Headaches Triggered by Typical Filing Blunders

Wolters Kluwer Reviews Common Tax Return Mistakes

(RIVERWOODS, IL, January 2016) — In the rush to get tax returns done and filed, it's easy to overlook something that could come back to haunt you or create a delay in receiving a refund.

Although many tax blunders can be chalked up as honest mistakes, those who deliberately exaggerate details or attempt to bend the rules in their financial favor could face serious legal penalties — including tax evasion charges, fines and even jail time.

"It doesn't pay to guess if you're unsure about anything on a tax return, but it does pay to check with a professional preparer or trusted resource to make sure you are completely accurate and not just hoping you're right," said Mark Luscombe, JD, LLM, CPA and Principal Federal Tax Analyst for Wolters Kluwer Tax & Accounting. "The IRS often examines errors in determining differences between minor oversights that can be easily corrected and major attempts to avoid paying taxes."

Some highly-common tax return mistakes include:

- Forgetting to include or using correct Social Security numbers
- Claiming ineligible dependents — must meet legal definition of a dependent
- Failing to check to see if the alternative minimum tax (AMT) applies on a return

The following checklist also covers potential tax pitfalls to avoid:

☐ **Not paying taxes on unemployment, wages, tips or other income** — Those receiving unemployment benefits are expected to pay taxes on all government financial support they receive. And those in the work force are expected to report all of their income, whether it comes in wages or tips. All investment income, including interest, dividends and capital gains, also needs to be reported and may be subject to different tax rules.

☐ **Not paying taxes on household help** — Taxpayers who hire a nanny or other household workers are required to withhold and pay FICA taxes if cash wages totaled $1,900 or more in 2015. They also must report and pay the required employment taxes for domestic employees on Schedule H, Household Employment Taxes, with the tax amount then transferred to the appropriate line on their Form 1040 or 1040A.

☐ **Not reporting gifts given over $14,000** — When someone receives a gift, its value is excludable from their gross income, meaning it's not taxable to them. However, if they later sell it at a gain or receive any other income from the gift, that amount is taxable. Taxpayers giving gifts in excess of $14,000 as a single filer or $28,000 as a split gift by joint filers have two options to satisfy their tax obligation: Pay taxes on the amount above the limit or apply it against their lifetime gift tax exemption ($5.43 million for 2015, up from the $5.34 million limit for 2014).

☐ **Not reporting premium assistance credit or penalty for failure to obtain health insurance** — Reporting requirements can create problems, especially regarding newer health care reform provisions. Carefully calculate if you have received too much or too little premium assistance credit and report the correct amount on the return. Also report if you had minimum essential coverage, an exemption or the amount of any penalty due.

- ☐ **Inflating the value of charitable donations** — The IRS expects people donating items to qualified charitable organizations to use fair market value in determining what each item is worth. For non-cash donations of more than $500, a written description of the donated property must also be furnished and non-cash donations of more than $5,000 must be appraised. Additionally, cash donations of any amount require proof, such as a cancelled check, credit card statement or receipt from the charity. And contributions of $250 or more also require a letter from the organization specifying the name of the donor, the amount given and the date received.

- ☐ **Exaggerating business expenses** — The IRS pays close attention to fraudulent tax abuses such as inflating business expenses or attempting to write-off personal and family expenses under the guise of a home-based business, where deductions are clearly invalid or where a business doesn't exist. For expenses to qualify as business deductions they must be ordinary and necessary expenses paid or incurred in carrying on a trade or business. Taxpayers must have proof to legitimize business deductions such as receipts.

  Sole proprietorships may claim business expenses on Schedule C, Profit or Loss from Business. Partnerships and joint ventures generally report expenses on Form 1065 or 1065-B.

- ☐ **Under-withholding of taxes** — Generally, income tax follows a pay-as-you-go approach, meaning taxpayers must pay taxes on income they earn during the year it's earned. This is done through preparing a Form W-4 so an employer can withhold the correct amount or by paying estimated taxes on a quarterly basis. Under-withholding results in owing back taxes as well as a possible penalty, which is typically interest on the amount under-withheld.

- ☐ **Not paying taxes on income earned abroad or from offshore accounts** — Taxpayers must report worldwide income, within and outside of the United States, on their tax returns — including income from foreign countries and applies even if Forms W-2, 1099 or their foreign equivalents were not received. They may also have to report foreign assets on Form 8938. Those who don't report those foreign assets or all taxable income from overseas business transactions or offshore accounts could face civil and criminal penalties.

- ☐ **Not reporting income from gambling or illegal schemes** — Form 1040, line 21 and Schedule A, line 28 on Form 1040 tax returns are intended for reporting various financial gains and losses. Whether you had a lucky night at the casino or financially benefited from an illegal transaction, such as a Ponzi scheme, embezzlement or other types of fraud, line 21 is the taxpayer's opportunity to tell all. For those who choose not to report gambling winnings or ill-gotten gains, they could be facing income tax evasion charges down the road.

- ☐ **Not filing a tax return** — Ever since the federal income tax began in 1913, there have been many legal challenges to the system that have fallen short. Most people are required to file a federal income tax return. Income thresholds for those who must file range based on age and filing status. For single filers under age 65 for 2015, returns must be filed if they earn $10,300; returns must be filed for married couples under age 65 filing jointly if their income is $20,600 or more. Not filing a tax return when required is considered income tax evasion with penalties including paying back taxes, interest and possible fines. Prison sentences could also be handed down in the most serious cases.

- ☐ **Tax Filing Deadline Day is April 18 for most** — Last-minute filers get a few extra days to file their taxes in 2016. Since Emancipation Day, an official public holiday in Washington, D.C. recognizing the day President Abraham Lincoln signed District of Columbia Compensated

Emancipation Act in 1862, falls on Friday, April 15, tax filing deadline day is midnight on Monday the 18th. Residents in Massachusetts and Maine will have until Tuesday, April 19th to file returns. Both states observe Patriot's Day on the 18th, commemorating the battles of Lexington and Concord. Extended tax filing deadline is October 17, 2016.

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Medical Tax Deductions, Changes, Penalties and New Compliance Measures for 2015 Tax Filings

Wolters Kluwer Updates Need-to-know Details

(RIVERWOODS, IL, January 2016) — While many taxpayers still have questions about how The Affordable Care Act (ACA and commonly referred to as "Obamacare") impacts their tax status, two new health care-related developments are taking effect for 2015 tax filings.

New for 2015 Taxes

- **Health Insurance Tax Credit** — The new credit is available for those who purchased health insurance through exchanges set up by the ACA. Qualifying recipients also must have a household income during the tax year that is between 100 and 400 percent of the Federal Poverty Level (FPL). Current FPL figures for income levels applying to households of up to eight people are available at Healthcare.gov. Those covered under Medicare, Medicaid or an employer's coverage are not eligible for the credit.

  The credit is refundable; meaning those who qualify can receive a tax refund even if the credit is more than one's total tax amount. The credit can also be received in advance of filing a tax return to help pay for health insurance premiums. Those who receive the advance credit need to calculate the actual tax credit when filing their return. If the actual health insurance tax credit is less than the amount of money that was advanced, the difference, with caps based on income, must be repaid.

- **Form 1095 Paperwork** — Form 1095-B and Form 1095-C had been optional for employers to provide, but are now mandatory. For 2015 tax filings, Form 1095-B must be filed by any employer that provides minimum essential coverage to an individual. Form 1095-C must be filed by all large employers covered under the law that have an average of at least 50 employees or at least full-time equivalent employees as measured by their average hours worked during calendar year 2015. Form 1095-C is also required for small employers that are members of a controlled group with a collective total of at least 50 full-time employees.

"As more tax provisions of the Affordable Care Act phase in for upcoming tax season filings, taxpayers and their employers need to be informed of additional credits and compliance measures," said George Jones, JD, LLM and Senior Federal Tax Analyst for Wolters Kluwer Tax & Accounting. "Individuals should take a close look at all health care tax benefits to see if they are taking advantage of all credits and deductions for which they qualify."

Checklist of Other Key Healthcare Deductions, Taxes and Penalties

☐ **Medical Expense Tax Deductions** — Taxpayers may deduct qualifying medical expenses from federal tax returns — only to the extent the total amount is greater than 10 percent of their adjusted gross income (AGI), which is reported on line 37 of a Form 1040 tax return. Taxpayers age 65 or older receive the benefit of a 7.5 percent AGI floor until 2017 under an ACA transition rule.

☐ **Health Insurance** — Americans who did not purchase health insurance last year as required by the Affordable Care Act mandate, and do not qualify for an exemption, must pay a penalty. Individuals under the so-called individual mandate generally will owe 1/12th of the annual payment for each month the individual (or dependent(s)) do not have either coverage or an exemption. In general, the annual payment amount is the greater of a percentage of household income or a flat dollar amount (but capped at the national average premium for a bronze level health plan available through the Marketplace). The applicable dollar amount is halved for any month in which the applicable individual is under the age of 18 on the first day of the month.

- For 2014, those amounts were 1 percent and $95, respectively
- For 2015 (applicable for the 2016 filing season), they are 2 percent and $325, respectively
- For 2016, they are scheduled to be 2.5 percent and $695, respectively

In 2015, the monthly national average premium for qualified health plans that have a bronze level of coverage and are offered through Exchanges was $207 per individual per month and $1,035 for a shared responsibility family with five or more members. The averages for 2014 are $204 and $1,020.

☐ **The 3.8-percent Net Investment Income (NII) Tax** — which applies to the lesser of net investment income or Modified Adjusted Gross Income (MAGI) in excess of $200,000 for single filers and $250,000 for married, joint return filers.

☐ **The 0.9-percent Additional Medicare Tax** — which took effect for 2013 taxes applying to earned income in excess of $200,000 for single filers and $250,000 for married, joint return filers.

Both the NII and Additional Medicare Taxes (applying to earned income) are designed to indirectly fund different areas of health care reform — based on income thresholds. Net investment income includes gross income from interest, dividends, annuities, stocks, royalties and rents as well as most proceeds from real estate and passive participation in partnerships.

However, while some people were concerned that selling their principal residence would trigger the NII tax, that's generally not likely because of the generous capital-gain exclusion available to most homeowners.

Taxpayers affected by NII filing status thresholds, which remain constant each year without inflation adjustment, include:

Filing Status	Modified Adjusted Gross Income Threshold
Single	$200,000
Married Joint Return	$250,000
Married Separate Return	$125,000
Any Other Individual	$200,000

The NII tax is applied to the lesser of the excess of their MAGI over the filing status threshold amount or net investment income. Trusts are also subject to NII Taxes above a threshold of $12,150 for 2015 (rising to $12,400 for 2016).

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Background on the 0.9-percent Additional Medicare Tax

In previous years, the employee-share of Medicare tax was 1.45 percent of their covered wages (2.9 percent for self-employed). Beginning in 2013 and for tax years thereafter, employees pay an additional 0.9-percent Additional Medicare Tax on covered annual wages exceeding $200,000 for single filers and $250,000 for joint filers. Employers are required to withhold the tax from wages paid to an employee in excess of $200,000.

Complications can quickly arise, however, particularly for married couples filing jointly where neither spouse makes more than $200,000 but their combined income exceeds $250,000. Similarly, individuals who work at more than one job where wages for each don't exceed the $200,000 limit, but do when incomes are combined. In such instances, an employer is not required to withhold taxes.

If an employer is not withholding the tax, then affected taxpayers are required to file estimated quarterly taxes or be subject to possible tax penalties for underpayment of tax.

Self-employed taxpayers also are subject to the 0.9-percent Additional Medicare Tax on earnings above $200,000 as single filers, $250,000 as joint filers and should adjust their estimated tax payments.

ACA Child Medical Deductions

One tax break provided by the ACA allows parents who itemize on their federal tax return to include medical expenses for children under age 27 as part of calculating their medical expense deductions. Parents can do so regardless of whether or not the child is covered under the parent's health insurance plan (eligible to be covered up through age 25).

Flexible Spending Accounts (FSAs) and Health Savings Accounts (HSAs)

Flexible Spending Accounts (FSAs) — The maximum health FSA contribution for 2015 taxes filings was $2,550, and remains at this $2,550 limit for 2016. FSAs allow employees to pay for unreimbursed medical costs including co-payments and prescriptions, but not health care premiums, for themselves and their family on a pre-tax basis. Due to the 2013 change to the 'use-or-lose' rule, employers can now structure their FSAs to allow an employee to carry over up to a $500 of unused funds into the following year.

Health Savings Accounts (HSAs) — Taxpayers with high-deductible health plans can make pre-tax contributions and tax-free distributions from their HSA for qualified medical expenses for themselves and their family. Distributions for expenses that are not qualified are treated as taxable income and there is a 20-percent penalty for taking non-qualified distributions. For 2015, the maximum contribution limit was $3,350, which remains the same for 2016. However, the maximum contribution for family policies ($6,650 in 2015) goes up $100 to $6,750 in 2016.

Those who reach age 55 by the end of the tax year are eligible for a catch-up contribution of $1,000. Contributions cannot be made by someone enrolled in Medicare.

Qualifying, Non-qualifying Medical Deductions

Medical expense deductions can include a variety of other medical-related costs, such as medical and long-term care insurance premiums not covered by an employer. Additionally, transportation costs to get medical care also can be allowable medical expenses. For personal vehicle use, the standard mileage rate for medical expenses is 23 cents per mile for 2015, dropping to an inflation-adjusted 19 cents per mile in 2016.

However, some costs clearly can't be deducted as medical expenses — and some can, but only under certain circumstances. For example, costs for:

- Teeth whitening is not an includible medical expense.
- Marijuana and other controlled substances are not includible as medical expenses at the federal level even though legalized by some states.
- Weight loss cost can be deducted if it is a treatment for a specific disease diagnosed by a physician (such as obesity or hypertension), but can't be included as a medical expense for someone just looking to improve their appearance.

2.3-percent Medical Device Excise Tax

Also potentially indirectly affecting taxpayers will be a tax on certain medical devices equal to 2.3 percent of their sale prices. Certain retail devices are exempt, such as eyeglasses, contact lenses and hearing aids. However, although the original effective date had been set for tax years beginning after December 31, 2012, Congress, in 2015 year-end legislation, suspended this controversial tax for the period beginning January 1, 2016, and ending on December 31, 2017.

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Supreme Court Decision Answers Same-Sex Marriage Recognition Tax Status Questions

Wolters Kluwer Examines the Ruling, Timeline and National Tax Impact

(RIVERWOODS, IL, January, 2016) — Only a year ago, the tax status of same-sex married couples varied greatly according to each state's laws and appellate court decisions that often differed with what was already on the books. Although same-sex married couples were already recognized by the IRS on the federal level, it was the Supreme Court that finally provided answers on the state level.

In the Court's 5-to-4 decision on June 26, 2015 in the case of *Obergfell v. Hodges* (2015-1 ustc ¶50,357), justices ruled that the 14th Amendment requires a state to license a marriage between two people of the same sex and to recognize a marriage between two people of the same sex when a marriage was lawfully licensed and performed out of state. The decision effectively ended the necessity for legally married same-sex couples in states that did not recognize same-sex marriage to have to file as single individuals for state tax purposes.

Full details of the Court's ruling and its national impact are available in the Wolters Kluwer Tax Briefing, *Supreme Court Upholds Premium Assistance Tax Credit; Extends Same-Sex Marriage Nationwide*.

Background

In August of 2013, the IRS announced it would now accept a married tax filing status for federal returns filed by legally married, same-sex couples, whether an affected couple lives in a jurisdiction that recognizes same-sex marriage or not. As long as a couple is married in a jurisdiction that recognizes same-sex marriage, the IRS will recognize their marriage, even if the couple later relocates to a jurisdiction that does not recognize same-sex marriage. Estate and gift taxes and payroll taxes associated with many employee spousal benefits were also updated to reflect updated IRS guidelines.

"The IRS said it followed other federal agencies by taking a 'place of celebration' approach rather than using a couple's 'place of domicile' to determine tax status. However, some federal agencies, such as Social Security and Veteran's Administration, had been forced by their enabling statutes to take a 'place of domicile' approach," said Mark Luscombe, JD, LLM, CPA and Principal Federal Tax Analyst for Wolters Kluwer Tax & Accounting. "Affected couples could also look at amending federal returns from open prior years to see if they may benefit from a married tax filing status."

Background on Marriage Penalty Relief

The American Taxpayer Relief Act of 2012 (ATRA) extended all existing tax breaks for what's known as the "marriage penalty."

At one time, there were two obvious contributing sources to the marriage penalty. First, the standard deduction allowed on a joint return was less than twice the amount of the standard deduction for single filers. Second, a couple could move into a higher tax bracket when their incomes were combined on their joint return. Add together two incomes that each might be taxed at 15 percent and you could get a joint income taxed at 25 percent.

Now, the standard deduction for joint filers is twice that of singles, and the 10- and 15-percent tax brackets are twice as high for joint filers, as well. But beyond the 15-percent bracket, the classic "marriage penalty" lingers

on. It also lingers on in many other tax breaks where the phase-out for joint filers is less than twice the phase-out for single filers.

"When the income tax was first established, the typical family included only one wage-earner," Luscombe said. "As a result, some people, especially those in 'traditional' families with a principal wage-earner, benefit from the same structures in the tax code that penalize others, such as those in dual-income situations."

After *Obergfell*

After the Supreme Court decision in *Obergfell*, same-sex marriages are recognized in all states, so the place of celebration vs. place of domicile distinction is no longer significant. The IRS still does not recognize civil unions or domestic partnerships as legal marriages. Remaining uncertainties with respect to same-sex marriages involve the extent to which the *Obergfell* decision is given retroactive effect, i.e. how far back must a marriage be recognized for purposes of issues such as common law marriage, community property, joint and survivor annuities, and homestead exemptions. These issues may have to be resolved in the courts.

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Blue Skies, Sunshine and Tax Breaks: Deciding Where to Retire

Wolters Kluwer Updates State Tax Treatments of Retirement Benefits

(RIVERWOODS, IL, January 2016) — Great weather and proximity to family are big factors when picking a place to retire — so is calculating the best places to stretch fixed retirement incomes. A little pre-retirement homework on state tax treatments of retirement benefits and other financial factors can be a key step in deciding where to set down new, post-career roots. Specific factors to consider include:

- State taxes on retirement benefits
- State income tax rates
- State and local sales tax
- State and local property taxes
- State estate taxes

Taxability of Retirement Benefits Varies State to State

Currently, seven states do not tax individual income — retirement or otherwise: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming.

Two other states — New Hampshire and Tennessee — impose income taxes only on dividends and interest (5 percent for New Hampshire and 6 percent for Tennessee).

In the other 41 states and the District of Columbia, tax treatment of retirement benefits varies widely. For example, some states exempt all pension income or all Social Security income. Other states provide only partial exemption or credits and some tax all retirement income.

States exempting pension income entirely for qualified individuals are Illinois, Mississippi and Pennsylvania.

States that exempt or provide a credit for a portion of pension income include: Arkansas, Colorado, Delaware, Georgia, Hawaii, Iowa, Kentucky, Louisiana, Maine, Maryland, Michigan, Missouri, Montana, New Jersey, New Mexico, New York, Ohio, Oregon, Oklahoma, South Carolina, Utah, Virginia and Wisconsin.

States where pension income is taxed include: Alabama, Arizona, California, Connecticut, District of Columbia, Idaho, Indiana, Kansas, Massachusetts, Minnesota, Nebraska, North Carolina, North Dakota, Rhode Island, Vermont and West Virginia.

(See chart below for additional detail.)

Significant State Tax Reforms

States enacting changes to their income tax laws for retirement plans in 2015 include:

Connecticut: All (100%) of military retirement pay for a retired member of the U.S. Armed Forces or the National Guard is exempt. Previously, the exemption was limited to 50% of military retirement pay. *Change is effective beginning with 2015 tax year.*

Idaho: The retirement benefits deduction is expanded to include government workers covered under the Foreign Service Retirement and Disability System (FSRDS), as well as employees receiving benefits under the offset programs for the Civil Service Retirement System (CSRS) and FSRDS. Legislation enacted in 2015 also clarifies that retirees under the Federal Employees Retirement System (FERS) and taxpayers receiving retirement benefits paid by the Foreign Service Pension System (FSPS) do not qualify for the deduction. *Change is effective beginning with 2015 tax year.*

Maine: All (100%) retirement benefits received under a military retirement plan included in a taxpayer's federal adjusted gross income

will be excluded from Maine taxable income. *Change is effective beginning with 2016 tax year.*

Maryland: Deduction for specified military retirement income is increased from $5,000 to $10,000 for individuals who are at least 65-years-old on the last day of the taxable year. *Change is effective beginning with 2015 tax year.*

Ohio: The credits for retirement income and lump-sum distributions from a pension, retirement, or profit-sharing plan are limited to taxpayers whose individual or joint adjusted gross income is less than $100,000. Previously, there were no income restrictions on these credits. *Change is effective beginning with 2015 tax year.*

Oregon: With respect to the credit for donations to an "individual development account," funds in accounts can now be used for retirement savings (along with many other things). In addition, once a development account's purpose has been met, remaining amounts can be rolled over into an individual retirement account. *Changes are effective beginning with 2016 tax year.*

Rhode Island: Social Security benefits will be excluded for single taxpayers with federal adjusted gross incomes of up to $80,000 and for joint taxpayers with federal adjusted gross incomes of up to $100,000 (these amounts will be adjusted annually for inflation). *Change is effective beginning with 2016 tax year.*

While some states tax pension benefits, only 13 states impose tax on Social Security income: Colorado, Connecticut, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont and West Virginia. These states either tax Social Security income to the same extent that the federal government does or provide limited breaks for Social Security income, often for lower-income individuals.

(See chart below for full detail on State Taxation of Retirement Income.)

State Income, Property, Sales Taxes Can Add Up

In addition to state taxes on retirement benefits, other taxes to consider when evaluating financial factors on where to retire include:

- **State income tax rates**: For example, income tax rates also can have a significant financial impact on retirees in determining where they want to live and can vary widely across the country.

  While seven states have no income tax and two tax only interest and dividend income, several have a relatively low income tax rate across all income levels. For example, the highest marginal income tax rates in Arizona, Kansas, New Mexico, North Dakota and Ohio are below 5 percent. Some states have a relatively low flat tax regardless of income, with the four lowest: Illinois (3.75 percent), Indiana (3.3 percent), Michigan (4.25 percent) and Pennsylvania (3.07 percent) for 2016.

- **State and local sales taxes:** Forty-five states and the District of Columbia impose a state sales and use tax (only Alaska, Delaware, Montana, New Hampshire and Oregon do not impose a state sales and use tax). States with a state sales tax rate of 7 percent include Indiana, Mississippi, New Jersey, Rhode Island, and Tennessee. California has a state sales tax rate of 7.5 percent. Local sales and use taxes, imposed by cities, counties and other special taxing jurisdictions, such as fire protection and library districts, also can add significantly to the rate.

- **State and local property taxes**: While property values have declined over recent years in many areas, it has not necessarily been the case for property taxes. However, many states and some local jurisdictions offer senior citizen homeowners some form of property tax exemption, credit, abatement, tax deferral, refund or other benefits. These tax breaks also are available to renters in some jurisdictions. The benefits typically have qualifying

restrictions that include age and income of the beneficiary.

- **State estate taxes:** Estate taxes also can influence where seniors want to retire. Rules vary from state to state, as well as from federal estate tax laws. While some states, such as Delaware and Hawaii, follow the federal exclusion amount ($5,430,000 in 2015 and $5,450,000 in 2016), others do not. The latter category includes Illinois ($4 million), Massachusetts ($1 million), and New York ($2,062,500 for deaths on or after April 1, 2015, and on or before March 31, 2015, and $3,125,000 for deaths on or after April 1, 2015, and on or before March 31, 2016; and $4,187,500 for deaths on or after April 1, 2016 and on or before March 31, 2017).

  Other states, including Arizona, Kansas and Oklahoma, no longer impose an estate tax. Still others, like California and Florida, technically still have such a tax on their books, but collect no revenue because their tax is based on the now-repealed federal credit for state death taxes. In general, this is an area of the law that has been in a considerable state of flux in recent years and will probably continue to be so in the foreseeable future.

(For more information on estate tax issues, see Release 13.)

About Wolters Kluwer Tax & Accounting

Wolters Kluwer Tax & Accounting is a leading provider of software solutions and local expertise that helps tax, accounting, and audit professionals research and navigate complex regulations, comply with legislation, manage their businesses and advise clients with speed, accuracy and efficiency.

Wolters Kluwer Tax & Accounting is part of Wolters Kluwer (www.wolterskluwer.com), a market-leading global information services company. Wolters Kluwer had 2014 annual revenues of €3.7 billion ($4.2 billion), employs approximately 19,000 people worldwide, and maintains operations in over 40 countries across Europe, North America, Asia Pacific, and Latin America. Wolters Kluwer is headquartered in Alphen aan den Rijn, the Netherlands. Its shares are listed on NYSE Euronext Amsterdam (WKL), on Bloomberg (WKL NA) and are included in the AEX and Euronext 100 indices. Wolters Kluwer has a sponsored Level 1 American Depositary Receipt program. The ADRs are traded on the over-the-counter market in the U.S. (WTKWY).

State Taxation of Retirement Income

The following chart shows generally which states tax retirement income, including Social Security and pension income for the 2015 tax year unless otherwise noted. States shaded indicate they do not tax these forms of retirement income.

State	State Tax of Social Security Income	State Tax of Pension Income
Alabama	Not taxed	Generally taxable
Alaska	No individual income tax	No individual income tax
Arizona	Not taxed	Generally taxable
Arkansas	Not taxed	Exempt to certain level
California	Not taxed	Generally taxable
Colorado	Exempt to a certain level; age restrictions apply	Exempt to a certain level; age restrictions apply
Connecticut	Exemption based on adjusted gross income (AGI)	Generally taxable
Delaware	Not taxed	Exempt to a certain level; age restrictions apply
District of Columbia	Not taxed	Generally taxable
Florida	No individual income tax	No individual income tax
Georgia	Not taxed	Exempt to a certain level; age restrictions apply
Hawaii	Not taxed	Distributions are partially exempt
Idaho	Not taxed	Generally taxable
Illinois	Not taxed	All income from federally qualified pension plans are generally exempt
Indiana	Not taxed	Generally taxable
Iowa	Not taxed	Exempt to a certain level; age restrictions apply
Kansas	Exemption based on AGI	Generally taxable
Kentucky	Not taxed	Exempt to a certain level
Louisiana	Not taxed	Exempt to a certain level; age restrictions apply
Maine	Not taxed	Exempt to a certain level
Maryland	Not taxed	Exempt to a certain level; age restrictions apply
Massachusetts	Not taxed	Generally taxable
Michigan	Not taxed	Exempt to a certain level; age restrictions apply

State Taxation of Retirement Income Continued

State	State Tax of Social Security Income	State Tax of Pension Income
Minnesota	Taxed	Generally taxable
Mississippi	Exempt in total	Not taxed
Missouri	Exemption based on AGI	Exempt to a certain level; income restrictions apply
Montana	Exemption based on AGI	Exempt to a certain level; income restrictions apply
Nebraska	Exemption based on AGI	Generally taxable
Nevada	No individual income tax	No individual income tax
New Hampshire	Only dividends and interest are taxable	Only dividends and interest are taxable
New Jersey	Social Security excluded from gross income	Exempt to a certain level; age and income restrictions apply
New Mexico	Taxed	Exempt to a certain level; age and income restrictions apply
New York	Not taxed	Exempt to a certain level; age restrictions apply
North Carolina	Not taxed	Generally taxable
North Dakota	Taxed	Generally taxable
Ohio	Not taxed	Credits for pension distribution or income allowed; age restrictions apply
Oklahoma	Not taxed	Exempt to a certain level
Oregon	Not taxed	Credit for pension distribution or income allowed; age and income restrictions apply
Pennsylvania	Not taxed	Not taxed; age restrictions apply
Rhode Island	Taxed (beginning in 2016, exemption based on AGI)	Generally taxable
South Carolina	Not taxed	Exempt to a certain level; age restrictions apply
South Dakota	No individual income tax	No individual income tax
Tennessee	Only dividends and interest are taxable	Only dividends and interest are taxable; exemption available with age and income restrictions
Texas	No individual income tax	No individual income tax

State Taxation of Retirement Income Continued

State	State Tax of Social Security Income	State Tax of Pension Income
Utah	Partial credit for Social Security benefits allowed; age and income restrictions apply	Partial credit for retirement income allowed; age and income restrictions apply
Vermont	Taxed	Generally taxable
Virginia	Not taxed	Exempt to a certain level; age and income restrictions apply
Washington	No individual income tax	No individual income tax
West Virginia	Taxed	Generally taxable
Wisconsin	Not taxed	Exempt to a certain level; age and income restrictions apply.
Wyoming	No individual income tax	No individual income tax

State Tax Treatment of Social Security, Pension Income

The following chart provides a general overview of how states treat income from Social Security and pensions for the 2015 tax year unless otherwise noted. States shaded indicate they do not tax these forms of retirement income.

State	Social Security Income	Pension Income
Alabama	State computation not based on federal. Social Security benefits excluded from taxable income.	Individual taxpayer's pension income is generally taxable.
Alaska	No individual income tax.	No individual income tax.
Arizona	Social Security benefits subtracted from federal AGI.	Individual taxpayer's pension income is generally taxable.
Arkansas	State computation not based on federal. Social Security benefits excluded from taxable income.	Up to $6,000 total in retirement pay benefits and benefits received from an individual retirement account (IRA) is exempt.
California	Social Security benefits subtracted from federal AGI.	Individual taxpayer's pension income is generally taxable.
Colorado	Pension income, including Social Security benefits, up to $24,000 may be subtracted from federal taxable income by those 65 and older, and up to $20,000 by those 55 through 64 years old.	An individual taxpayer 55 through 64 years old can exclude up to $20,000 ($24,000 for a taxpayer aged 65 or older) in pension and annuity income.
Connecticut	Joint filers and heads of households with AGIs under $60,000, and single filers and married taxpayers filing separately with AGIs under $50,000; deduct from federal AGI all Social Security income included for federal income tax purposes. Joint filers and heads of households with AGIs over $60,000, and single filers and married taxpayers filing separately with AGIs over $50,000, deduct the difference between the amount of Social Security benefits included for federal income tax purposes and the lesser of 25 percent of Social Security benefits received or 25 percent of the excess of the taxpayer's provisional income in excess of the specified base amount under IRC Sec. 86(b)(1).	Individual taxpayer's pension income is generally taxable.

State Tax Treatment of Social Security, Pension Income Continued

State	Social Security Income	Pension Income
Delaware	Social Security benefits subtracted from federal AGI.	An individual taxpayer younger than 60 may deduct pension amounts of up to $2,000, and a taxpayer 60 or older may deduct up to $12,500. Eligible amounts for a taxpayer 60 or older include dividends, capital gains, interest, rental income, and distributions from qualified retirement plans.
District of Columbia	Social Security benefits subtracted from federal AGI.	Individual taxpayer's pension income is generally taxable.
Florida	No individual income tax.	No individual income tax.
Georgia	Social Security benefits subtracted from federal AGI.	An individual taxpayer age 62 to 64 may exclude up to $35,000 of retirement income; an individual 65 or older may exclude up to $65,000. Up to $4,000 of the maximum exclusion amount may be earned income.
Hawaii	Social Security benefits subtracted from federal AGI.	Distributions derived from employer contributions to pensions and profit-sharing plans are exempt.
Idaho	Social Security benefits subtracted from federal AGI.	Individual taxpayer's pension income is generally taxable.
Illinois	Social Security benefits subtracted from federal AGI.	Income from federally qualified retirement plans, IRAs, retirement payments to a retired partner, and certain capital gains on employer securities are excluded.
Indiana	Social Security benefits subtracted from federal AGI.	Individual taxpayer's pension income is generally taxable.
Iowa	Social Security benefits subtracted from federal AGI.	Married taxpayers age 55 or older filing a joint return may exclude up to $12,000 ($6,000 for an unmarried taxpayer) of pension benefits and other retirement pay. A special rule applies to a spouse filing separately.
Kansas	Taxpayers with a federal AGI of $75,000 or less are exempt from any state tax on their Social Security benefits.	Individual taxpayer's pension income is generally taxable.

State Tax Treatment of Social Security, Pension Income Continued

State	Social Security Income	Pension Income
Kentucky	Social Security benefits subtracted from federal AGI.	Up to $41,110 of retirement income from a pension plan, annuity contract, profit-sharing plan, retirement plan or employee savings plan, including IRA amounts and other similar income, is exempt.
Louisiana	Social Security benefits subtracted from federal AGI.	Up to $6,000 of the pension and annuity income of an individual taxpayer 65 or older is exempt.
Maine	Social Security benefits subtracted from federal AGI.	A recipient of retirement plan benefits under an employee retirement plan or an IRA may generally subtract from federal AGI the lesser of: –$10,000, reduced by the total amount of the recipient's Social Security benefits and Railroad Retirement benefits paid; or –The aggregate of retirement plan benefits received by the recipient under employee retirement plans or IRAs and included in the individual's federal AGI.
Maryland	Social Security benefits subtracted from federal AGI.	Up to $29,200, generally, in pension income (except income from an IRA, SEP or Keogh) is excludable for an individual taxpayer age 65 or older.
Massachusetts	Social Security benefits subtracted from federal AGI.	Individual taxpayer's pension income is generally taxable.

State Tax Treatment of Social Security, Pension Income Continued

State	Social Security Income	Pension Income
Michigan	Social Security benefits subtracted from federal AGI.	For individuals born prior to 1946, up to $49,811 in pension and retirement income is deductible on a single return $99,623 on a joint return). Individuals born from January 1, 1946, to January 1, 1949, can deduct up to $20,000 ($40,000 on a joint return) against all income, but cannot deduct pension and retirement benefits. For individuals born between January 1, 1949, and December 31, 1952, up to $20,000 in pension and retirement income is deductible on a single return ($40,000 on a joint return) in lieu of claiming the social security deduction and personal exemption. Individuals born from January 1, 1953, to January 1, 1954, who receive retirement benefits from employment exempt from Social Security may deduct up to $15,000 ($30,000 on a joint return) in qualifying pension and retirement benefits.
Minnesota	State computation begins with federal taxable income. No subtraction.	Individual taxpayer's pension income is generally taxable.
Mississippi	State computation not based on federal. Social Security benefits exempt in total.	Retirement allowances, pensions, annuities or "optional retirement allowances" (income from Keogh plan, IRA or deferred compensation plan) are exempt.
Missouri	Social Security benefits that are included in federal AGI may be subtracted. Married couples with Missouri AGI greater than $100,000 and single individuals with Missouri AGI greater than $85,000, may qualify for a partial deduction.	Combined return filers with Missouri AGI less than $32,000, single filers with Missouri AGI less than $25,000, and married filers filing separately with Missouri AGI less than $16,000 may deduct $6,000 ($12,000 combined filers) of their private retirement benefits, to the extent the amounts are included in their federal AGI. Partial exemptions available to taxpayers with income levels above the AGI limits listed above.

State Tax Treatment of Social Security, Pension Income Continued

State	Social Security Income	Pension Income
Montana	Separate calculation to determine taxable Social Security benefits. Benefits exempt if income is $25,000 or less for single filers or heads of households, $32,000 for married taxpayers filing jointly, and $16,000 for married taxpayers filing separately.	For an individual taxpayer, up to $3,980 of pension and annuity income is exempt (reduced by $2 for every $1 of federal AGI that exceeds $33,190).
Nebraska	Social Security benefits subtracted if taxpayer's federal AGI is less than or equal to $58,000 for joint filers or $43,000 for all other filers.	Individual taxpayer's pension income is generally taxable.
Nevada	No individual income tax.	No individual income tax.
New Hampshire	Only dividends and interest are taxable.	Only dividends and interest are taxable.
New Jersey	State computation not based on federal. All Social Security benefits are excluded by statute from gross income. Taxpayers age 62 or older who did not receive Social Security benefits, but would have been eligible for benefits, may qualify for a special exclusion of up to $6,000 for joint filers, heads of household, or surviving spouses; or up to $3,000 for single filers or married taxpayers filing separately.	Taxpayers age 62 or older with total income of $100,000 or less may exclude pensions, annuities, or IRA withdrawals of up to $20,000 for joint filers; $10,000 for married taxpayers filing separately; or $15,000 for a single taxpayer, a head of household, or a qualifying widow(er). Taxpayers who did not claim the maximum pension exclusion amount because pension income was less than the maximum exclusion amount for the taxpayer's filing status may use the unclaimed portion of the pension exclusion to exclude other types of income.
New Mexico	State computation begins with federal AGI. No subtraction.	An individual taxpayer age 65 or older may exempt up to $8,000 of income (100% of income if age 100 or older and not claimed as a dependent on another return), including pension income, depending upon the individual's filing status and federal AGI. Joint filers, a surviving spouse or a head of household with AGI of $51,000 or more are ineligible for this exemption. A married individual filing separately becomes ineligible at $25,500. A single individual becomes ineligible at $28,500.

State Tax Treatment of Social Security, Pension Income Continued

State	Social Security Income	Pension Income
New York	Social Security benefits subtracted from federal AGI.	For an individual taxpayer age 59½ or older, $20,000 of pension and annuity income is exempt.
North Carolina	Social Security benefits subtracted from federal taxable income.	Individual taxpayer's pension income is generally taxable.
North Dakota	State computation begins with federal taxable income. No subtraction.	Individual taxpayer's pension income is generally taxable.
Ohio	Social Security benefits subtracted from federal AGI.	A recipient of retirement income with an AGI of less than $100,000 may claim an annual credit ranging from $25 to $200, depending on the amount of retirement income received during the year. Also, in lieu of the $50 senior citizen income credit (credit eligibility is dependent on age not retirement income), an individual taxpayer age 65 or older with an AGI of less than $100,000 may claim a credit for a lump-sum distribution from a retirement, pension or profit-sharing plan equaling $50 times the taxpayer's expected remaining life years. Finally, taxpayers with an AGI of less than $100,000 receiving a lump-sum distribution on account of retirement (no age requirement) may claim a credit calculated using a formula based on the amount of retirement income received and the taxpayer's expected remaining life.
Oklahoma	Social Security benefits subtracted from federal AGI.	Up to $10,000 of retirement benefits from a private pension is exempt for an individual taxpayer, but not to exceed the amount included in federal AGI.

State Tax Treatment of Social Security, Pension Income Continued

State	Social Security Income	Pension Income
Oregon	Social Security benefits subtracted from federal taxable income.	An individual taxpayer age 62 or older with household income of less than $22,500 ($45,000 for joint filers), Social Security and/or Railroad Retirement benefits of less than $7,500 ($15,000 for joint filers), and household income plus Social Security and/or Railroad Retirement Board benefits of less than $22,500 ($45,000 for joint filers) may claim a credit for pension income equal to the lesser of 9 percent of the individual's net pension income or the individual's state personal income tax liability.
Pennsylvania	State computation not based on federal. Social Security benefits not included in state taxable income.	Retirement benefits received from eligible employer-sponsored retirement plans are generally exempt, including distributions from employer-sponsored deferred compensation plans, pension or profit sharing plans, 401(k) plans, thrift plans, thrift savings plans, and employee welfare plans. Distributions from an IRA are not taxable if the payments are received, including lump sum distributions, on or after reaching the age of 59½.
Rhode Island	State computation begins with federal taxable income. No subtraction. (Beginning in 2016, Social Security benefits subtracted from federal AGI if federal AGI is $80,000 or less for single, head of household, or married filing separate taxpayers; or $100,000 or less for married filing joint or qualified widow(er) taxpayers.)	Individual taxpayer's pension income is generally taxable.
South Carolina	Social Security benefits subtracted from federal taxable income.	An individual taxpayer receiving retirement income may deduct up to $3,000. A taxpayer age 65 or older may deduct up to $10,000.
South Dakota	No individual income tax.	No individual income tax.

State Tax Treatment of Social Security, Pension Income Continued

State	Social Security Income	Pension Income
Tennessee	Only dividends and interest are taxable.	Only dividends and interest are taxable. Taxpayers 65 or older with total income from all sources of $33,000 or less ($59,000 or less for joint filers) are exempt.
Texas	No individual income tax.	No individual income tax.
Utah	State computation begins with federal taxable income. No subtraction. Partial credit for Social Security benefits allowed (age and income restrictions apply).	An eligible retiree age 65 or older is allowed a nonrefundable retirement credit of $450. An eligible retiree under age 65 and born before 1953 is allowed a nonrefundable retirement credit equal to the lesser of $288 or 6 percent of the eligible retirement income for the taxable year for which the retiree claims the tax credit. These credits are phased out at 2.5 cents per dollar by which modified AGI exceeds $16,000 for married individuals filing separately, $25,000 for singles and $32,000 for heads of household and joint filers.
Vermont	State computation begins with federal taxable income. No subtraction.	Individual taxpayer's pension income is generally taxable.
Virginia	Social Security benefits subtracted from federal AGI.	A $12,000 deduction is available to an individual taxpayer born before 1939. For taxpayers 65 and older born after 1938, the deduction is reduced dollar for dollar for every $1 that the taxpayer's adjusted federal AGI exceeds $50,000 ($75,000 for married taxpayers). For a married taxpayer filing separately, the deduction is reduced by $1 for every $1 that the total combined adjusted federal AGI of both spouses exceeds $75,000.
Washington	No individual income tax.	No individual income tax.
West Virginia	State computation begins with federal AGI. No subtraction.	Individual taxpayer's pension income is generally taxable. However, subject to some qualification, an individual taxpayer who, by the last day of the tax year, has reached age 65 may deduct up to $8,000 to the extent that amount was includable in federal AGI.

State	Social Security Income	Pension Income
Wisconsin	Social Security benefits subtracted from federal AGI.	Taxpayers age 65 or older may subtract up to $5,000 of income from a qualified retirement plan or from an IRA if federal AGI is less than $15,000 ($30,000 for married taxpayers).
Wyoming	No individual income tax.	No individual income tax.

SOURCE: Wolters Kluwer, 2016

Sales and Use Tax Rates and Rules for Online Shoppers

Wolters Kluwer Provides Key Details for Website, E-Commerce Transactions

(RIVERWOODS, IL, January 2016) — Whether you're checking out at a big box store, shopping small or making a purchase through a mobile app, sales taxes still apply. Cash register sales tax calculations are clear on your receipt when it comes to local sales taxes, but questions remain over tracking sales and use taxes on the ever-shifting Internet retail landscape of buying from favorite apps and web sites.

"It's tough for online shoppers to fully understand Internet sales and use tax laws in their particular states," said Carol Kokinis-Graves, JD and Senior State Tax Analyst for Wolters Kluwer Tax & Accounting. "Shoppers need to know about current tax laws that require remote online sellers to collect use tax from consumers."

State Sales Tax Breakdown

Overall, 45 states and the District of Columbia currently have a sales tax. Sales tax is generally imposed on retailers who collect it from consumers when they make an in-state purchase of an item, or in some instances a service. Use tax applies when a consumer makes a purchase from an out-of-state retailer for use in their resident state. Generally, if the out-of-state retailer does not collect the use tax, the consumer still owes it to the state department of revenue.

Reporting Use Tax on 2015 State Income Tax Returns

While many taxpayers may still not know they are required to pay the tax if it's not collected by a retailer, 27 states include instructions with their state tax returns for people to report any uncollected use tax and allow them to pay uncollected tax when filing their state income tax returns.

State returns providing use tax collection instructions:

Alabama
California
Connecticut
Idaho
Illinois
Indiana
Kansas
Kentucky
Louisiana
Maine
Massachusetts
Michigan
Mississippi
Nebraska
New Jersey
New York
North Carolina
Ohio
Oklahoma
Pennsylvania
Rhode Island
South Carolina
Utah
Vermont
Virginia
West Virginia
Wisconsin

"With federal legislation yet to be passed, many states have taken affirmative action to collect the taxes due," said Kokinis-Graves. "More than one-half have proposed or have already enacted legislation requiring remote sellers to collect use tax from consumers and further proposals are expected."

More States Enacting "Amazon" Laws

Collectively, state-initiated remote seller collection laws require online retailers (such as Amazon.com) to collect state use tax in circumstances in which the remote seller has some type of connection with the state, albeit not a physical presence.

New York enacted its click-through nexus law in 2008. Amazon.com and Overstock.com challenged the statute, but the New York Court of Appeals held that online retailers who sold their products solely through the Internet failed to demonstrate that the statutory provision that required out-of-state Internet retailers with no physical presence in New York State to collect sales and use taxes was unconstitutional — under either the Commerce Clause or the Due Process Clause. Ultimately, the U.S. Supreme Court, in December 2013, denied the requests of Amazon.com and Overstock.com to review that ruling.

Once the states began to enact their own laws to address the taxation of remote sales, the final arbiter on the issue would have to be either the U.S. Supreme Court or Congress. The refusal of the U.S. Supreme Court to review the New York cases involving Amazon.com and Overstock.com has paved the way for Congress to act. Failing that, states will likely continue to enact such "Amazon" laws or go on losing revenue from uncollected taxes.

According to Kokinis-Graves, the broader nexus provisions already enacted by a number of states generally fall into two categories:

- Click-through nexus provisions generally require online retailers to collect and remit use tax if they enter into an agreement under which an in-state person, for a commission, refers potential purchasers to the retailer, whether through an Internet-based link or a website, provided certain total cumulative sales thresholds are met; and

- Affiliate-nexus provisions generally require online retailers to collect use tax if they have an affiliation with a company doing business in the state.

States that have enacted one or more of these nexus provisions include: Arkansas, California, Colorado, Connecticut, Georgia, Illinois, Iowa, Kansas, Kentucky, Maine, Minnesota, Missouri, New Jersey, New York, North Carolina, Oklahoma, Pennsylvania, Rhode Island, South Dakota, Texas, Utah, Vermont, Virginia and West Virginia.

Additionally, several states have reached an agreement with Amazon under which Amazon.com has agreed to collect tax and has begun doing so. Those states include: Arizona, Connecticut, Indiana, Massachusetts, Nevada, New Jersey and Virginia.

"Online retail sales continue to grow," Kokinis-Graves added. "A federal law would resolve the issue for the nation but in the absence of such legislation, states will continue to consider everything in their arsenal to enforce and collect the tax that is due."

Some states also require that retailers inform consumers of their obligation to pay the use tax and/or report purchases made to the state department of revenue. This includes Colorado, Kentucky, Oklahoma, South Carolina and South Dakota.

To view an updated national map of state sales tax laws, please visit: https://www.cchgroup.com/media/wk/taa/pdfs/news-and-insights/wbot/amazon-tax-map-infographic-2016.pdf.

Proposed Federal Legislation

Although buyers are supposed to report any taxes they didn't pay for Internet purchases, federal legislation designed to simplify the patchwork of state rules requiring online retailers to collect taxes has fallen short from being signed into law.

The Marketplace Fairness Act of 2015, which was introduced in the U.S. Senate on March 10, 2015, is designed to protect "bricks-and-mortar" businesses from an unfair advantage where shoppers might avoid taxes by buying online instead of visiting local stores. It would grant each member state under the Streamlined Sales and Use Tax Agreement authority to require all sellers that don't qualify for a small-seller exception (sellers with annual gross receipts in total U.S. remote sales not exceeding $1 million) to collect and remit sales and use tax on sales to in-state customers.

The legislation has been referred to the Committee on Finance. Supporters claim the issue is about fairness and that Internet sellers should also be responsible for collecting sales taxes, but critics say it amounts to a tax increase.

Background

Under existing law, retailers nationwide are required to collect sales taxes for purchases made in states in which they have a physical presence, or nexus. But they are not required to collect the tax in states where they have no physical nexus based on a 1992 U.S. Supreme Court decision (*Quill Corp. vs. North Dakota*). However, the Supreme Court also noted that Congress did have the authority to change this policy and enact legislation requiring all retailers to collect sales tax.

More than two decades and many proposals later, Congress is still working on a solution. The Marketplace Fairness Act would give states — following the Streamlined Sales Tax (SST) Agreement rules — the authority to require retailers to collect sales tax on online purchases, regardless of nexus. It would, however, exempt small businesses that earn less than $1 million annually from out-of-state sales.

The SST effort is an initiative to simplify state sales tax so that there are common definitions for taxable products and uniform procedures across the states. To date, 24 states have passed laws to abide by SST rules.

About Wolters Kluwer Tax & Accounting

Wolters Kluwer Tax & Accounting is a leading provider of software solutions and local expertise that helps tax, accounting, and audit professionals research and navigate complex regulations, comply with legislation, manage their businesses and advise clients with speed, accuracy and efficiency.

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Status of State Sales & Use Tax Nexus Laws Applicable to e-Commerce Transaction

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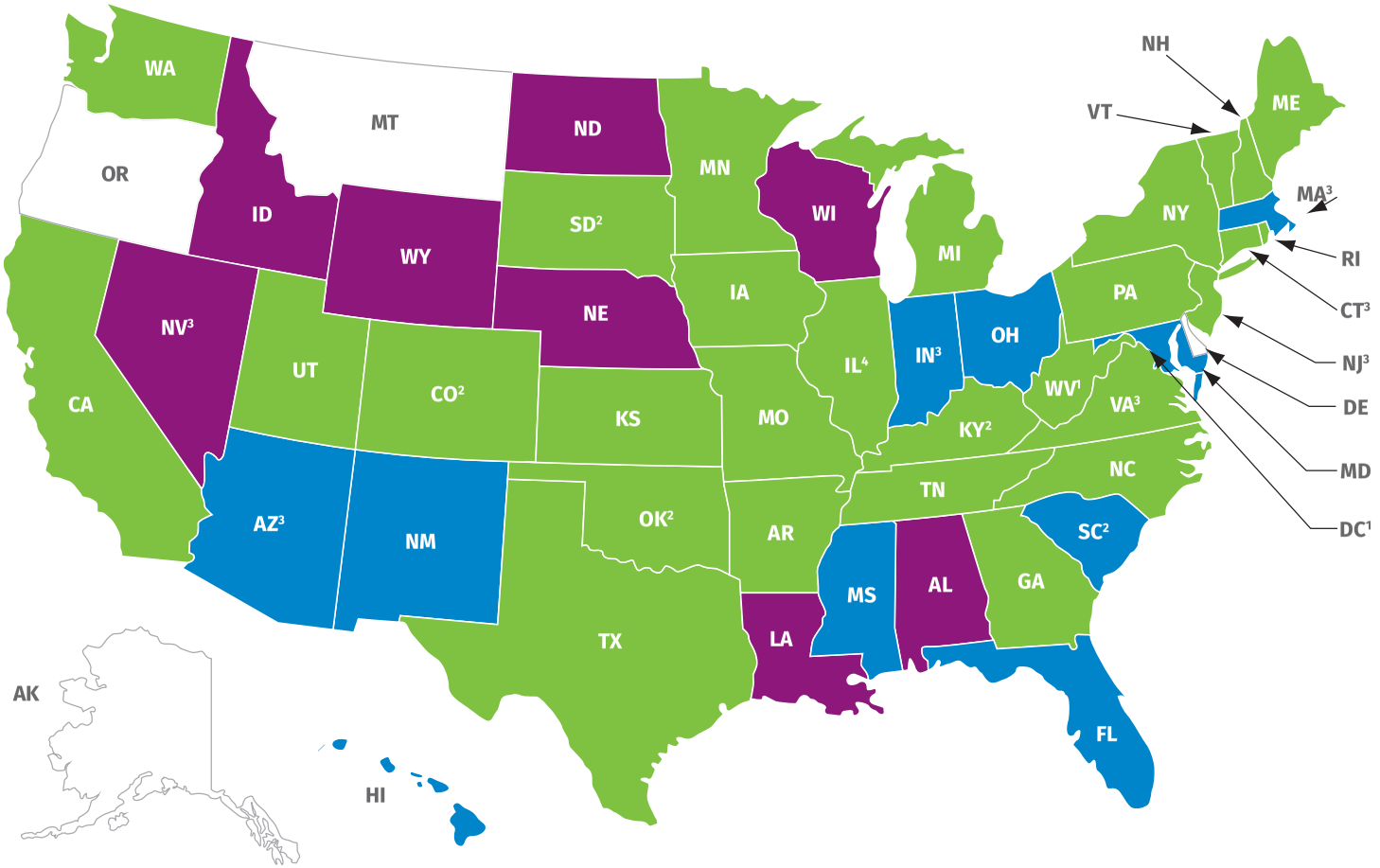

States with sales tax
States with sales tax that have enacted online tax laws
States with sales tax that have introduced online tax legislation
States with no sales tax

States with sales tax that have enacted or introduced online tax laws include those with tax legislation related to click-through nexus, affiliate nexus, website notice and/or reporting requirements, or some variation thereof.

1 **The District of Columbia enacted** a remote vendor collection requirement but it is not effective until the enactment by U.S. Congress of legislation that permits the provisions of the bill to go into effect.

2 **Five states have notice and/or reporting requirements:** Colorado, Kentucky, Oklahoma, South Carolina and South Dakota

3 **Several states have reached an agreement with Amazon** under which Amazon has agreed to collect tax and has begun doing so: Arizona, Connecticut, Indiana, Massachusetts, Nevada, New Jersey and Virginia.

4 **The Illinois Supreme Court** held that the definition provisions in the sales tax click-through nexus law are void and unenforceable because they impose a discriminatory tax on electronic commerce under the meaning of the federal Internet Tax Freedom Act. Illinois Supreme Court, October 18, 2013. Since the court's ruling, Illinois has enacted legislation under which a retailer would be presumed to be maintaining a place of business in Illinois if certain conditions are met, effective January 1, 2016.

Source: Wolters Kluwer, 2016

Last revised January 18, 2016.

Business Traveler Tax Planning Tips

Wolters Kluwer Covers Need-to-know Facts for Road Warriors from Coast to Coast

(RIVERWOODS, IL, January 2016) — Whether their mobile office is occasionally with them on the road, in the air or while riding the rails, business travelers who work across state lines know they need to prepare a bit more when it's time to file their tax returns. Although calls have been made to simplify the tax preparation process for those who work in multiple locations, travelers need to be aware of the local income tax laws and required forms to file in places where they regularly conduct business.

"While celebrities, artists and athletes touring the country may have teams of accounting and financial pros handling all their tax paperwork, regular business travelers who don't operate in the public spotlight should still be aware of the local tax compliance measures where they work, which may include tax breaks they may not be aware of," said Rocky Mengle, JD and Senior State Tax Analyst for Wolters Kluwer Tax & Accounting. "Even if you're only working in one place for a short period of time, specific state income tax rules may still apply."

Working in Different States

Forty-one states and the District of Columbia impose a personal income tax on wages, and each has different rules regarding when income tax is imposed on nonresidents. Some state withholding thresholds are based on the number of days worked in the state while others are based on the wages earned in the state. For example:

- **Louisiana —** Requires nonresidents who must file a federal return to also file a Louisiana state tax return if they received income from state sources.
- **Maine —** Requires nonresidents to file a state tax return if they have enough income from state sources to trigger a state income tax liability, but there are exceptions based on the number of days spent in the state, the type of work and the amount earned.
- **Massachusetts —** Has different income filing thresholds for residents vs. nonresidents. The 2015 filing threshold is $8,000 for residents regardless of filing status. However, the threshold for nonresident single filers and married taxpayers filing separately is just $4,400; $6,800 for head of households; and $8,800 for marrieds filing jointly (nonresident thresholds are adjusted based on time spent in Massachusetts).

Additional Business Travel Tax Facts

- Most states require residents to file income tax returns reporting all their income, regardless of whether they earned the income in that state or another state.
- Someone working in multiple states would then also file nonresident income tax returns in each state in which they met the income tax filing thresholds.
- Helping to avoid double taxation, most states allow residents to take a tax credit on their tax return for income taxes they paid to other states.

Some states also have reciprocity agreements allowing individuals to work in neighboring states without owing income taxes to the nonresident state. Overall, more than one-third of states have reciprocity agreements with one or more other states, including:

- **Illinois —** Residents of Iowa, Kentucky, Michigan or Wisconsin who work in Illinois do not have to pay Illinois income taxes on their wages.
- **Ohio —** Residents of Indiana, Kentucky, Michigan, Pennsylvania or West Virginia who work in Ohio do not have to pay Ohio income taxes on their wages.

- **Pennsylvania —** Residents of Indiana, Maryland, New Jersey, Ohio, Virginia or West Virginia who work in Pennsylvania do not have to pay Pennsylvania income taxes on their wages.

"Typically, reciprocity agreements are made with neighboring states that share borders — so they don't apply for those working on opposite sides of the country," Mengle added.

An exception is the District of Columbia, which does not require residents of any state to pay District of Columbia income taxes on their wages, unless they lived in the District of Columbia for at least 183 days during the year.

Most states also have special rules exempting members of the military and their families from having to file multiple state tax returns.

No Tax Reciprocity for New York City-area

Conspicuously absent from the states providing one another reciprocity are New York, Connecticut and New Jersey. As a result, workers who live in one of these states and work in another have to file nonresident income tax returns if they meet the filing thresholds. They can, however, take a tax credit for taxes paid to the other state.

Impact for 2016 Filing Season

Without federal tax laws in place that apply to business travelers, employees and employers need to make sure they're following the various rules and regulations of all states where work is done. In addition to employment income, other reasons a taxpayer may need to file a nonresident state income tax return include receiving income from:

- A share of a partnership, LLC or S-corporation based in another state
- A trade or business in another state, such as working as a consultant or a repairman
- Rental property in another state
- The sale of real estate in another state
- Lottery or other gambling winnings from another state

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Dos and Don'ts for Donations and Deductions

Wolters Kluwer Reviews Tax Rules for Charitable Contributions

(RIVERWOODS, IL, January 2016) — Writing a check, making an online pledge or donating goods to qualifying tax-exempt, charities and non-profit organizations are popular methods for earning a deduction at tax time. However, just remembering you made a donation during the year and proving it with a written record of the transaction are two different things. In addition to listing the need-to-know tax deduction guidelines on charitable and non-profit donations in the checklist below, one recent development benefits both organizations and senior citizens.

Direct IRA Rollovers Extended for 2015 Filings
The Protecting Americans from Tax Hikes (PATH) Act of 2015, signed into law last December, permanently extended the provision where IRA account holders may directly donate distributions to charities.

Who Qualifies?
Individuals age 70½ (the age at which required minimum distributions must be taken) or older who gave a tax-free, direct distribution of up to $100,000 in 2015 from their IRAs to qualifying charities would qualify. The provision benefits seniors who no longer had significant expenses, such as paying down home mortgages, to donate funds from their retirement accounts as tax-deductible charitable donations — without having to report the donated amount as retirement income or claim itemized deductions instead of the standard deduction.

"It's a popular and now permanent win-win provision for retirees who didn't need all the money they had saved in retirement and for charitable organizations," said Mark Luscombe, JD, LLM, CPA and Principal Federal Tax Analyst for Wolters Kluwer Tax & Accounting. "Donations below the $100,000 limit are not taxed and do not increase adjusted gross incomes (AGIs)."

Checklist for Claiming Charitable Contributions

Everyone filing returns should know the basic rules checklist for claiming charitable contributions as tax deductions:

- ☐ **Deductions must be included as itemized deductions —** This is done on Form1040, Schedule A.
- ☐ **Donations must be for qualified charitable organizations —** In order to receive a deduction, your contribution must be to a qualified charitable organization, typically given Code Sec. 170(c) status by the IRS and listed on their website. Deductions are not allowed for contributions to individuals, political organizations or unions for example.
- ☐ **Proper acknowledgement, proof of donation —** For any cash or property valued at $250 or more, you must have a receipt (bank record, payroll deduction or written acknowledgment) identifying the organization, the value and a description of the property. If your overall noncash contributions exceed $500, you must file IRS Form 8283, Noncash Charitable Contributions, with your return; for items valued at more than $5,000, you must also generally include an appraisal by a qualified appraiser. Deductions for cash donations of any amount require either a bank record, credit card statement or a receipt or another written acknowledgement from the receiver.

- ☐ **Text message donations records —** If you made a quick text message, charitable donation from your cell phone during the year, mobile phone bill records generally meet the record-keeping requirement. The billing item should include the name of the charity, date of donation and amount.

- ☐ **Know special rules for certain noncash donated property —** For example, clothes and household goods must generally be in good used or better condition to be tax deductible.

- ☐ **Subtract any benefit you received for the value of your donation —** For example, if you bid on football game tickets at a charity's silent auction that had a listed value of $400, but you secured them with a high bid of $600, you may only deduct the amount that exceeds the fair market value — or $200.

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Simplifying Estate and Gift Tax Planning

Wolters Kluwer Updates Key Federal and State Estate and Gift Tax Rules

(RIVERWOODS, IL, January 2016) — Calculating estate and gift taxes can be challenging even for the most seasoned tax professional. Although it's occasionally a hot topic of debate on Capitol Hill, no major legislation has been passed recently that applies to estate or gift taxes.

Updates for 2016 Estate and Gift Taxes

The inflation-adjusted lifetime estate tax exclusion amount for decedents dying (and gifts made) for 2016 taxes is $5.45 million — meaning that estates valued at that amount or lower are excluded from estate taxes (up from $5.43 million for 2015). As a result, the estates of a married couple could potentially exempt twice as much, up to $10.9 million from estate (or gift taxes) for 2016 transfers.

The annual gift tax exclusion remains at $14,000 for 2016, as it was in 2015; permitting tax-free gifts of up to $14,000 per donee or $28,000 per couple using gift splitting.

While this means more estates may be shielded from estate taxes, many lawmakers are looking at ways to minimize the use of some estate planning strategies implemented to further reduce estate taxes. For example, the Administration's revenue proposals in recent years have targeted Grantor Retainer Annuity Trusts (GRATs) and Family Limited Partnerships (FLPs), among others.

While these techniques were not affected for fiscal year 2016, they could be targets again in future revenue-raising proposals. However, estates that move to establish them now, will likely be able to continue to use them.

"If proposals to limit these tools become law, it's likely that estates already using them would be grandfathered in, but as with any new legislation you always have to be cognizant of the effective date," said Bruno Graziano, JD, MSA and Senior Estate Tax Analyst for Wolters Kluwer Tax & Accounting.

Examples of new rules that did make the legislative agenda for 2015 include those governing consistent basis reporting for both estate tax and income taxes with respect to property received from a decedent and the early termination of certain charitable remainder unitrusts (CRUTs). Separately, a new provision states that gift taxes do not apply to contributions made to certain tax-exempt organizations.

State Estate Tax Developments

Although many states have historically based their estate tax laws on the federal estate tax, in recent years some have passed their own "stand-alone" estate tax laws as a way of holding onto tax revenues. They include Connecticut, Delaware, Maine, Minnesota, New York, Oregon and Washington State.

Eight states have no estate tax at all: Arizona, Georgia, Indiana, Kansas, North Carolina, Oklahoma, South Dakota and Texas. Other states, such as California and Florida technically still have a tax on the books, but their taxes are based on the now-repealed federal credit for state death taxes and it is highly doubtful that the federal credit will ever be reinstated. Consequently, those states do not tax the transfer of an estate either.

In addition to estate taxes, seven states also collect an inheritance tax. This is a tax on the portion of an estate received by an individual. It is different from an estate tax, which taxes an entire estate before it is distributed to individual parties. These states are Iowa, Kentucky, Maryland, Nebraska, New Jersey, Pennsylvania and Tennessee. The Tennessee inheritance tax no longer applies after 2015. Assets transferred to a spouse are exempt from the inheritance tax and some states exempt assets transferred to children and close relatives.

Maximum Rate Impact

When the American Taxpayer Relief Act (ATRA) of 2012 was signed into law, it implemented a permanent maximum estate tax rate of 40 percent. It also provides an exclusion from estate taxes of up to $5 million dollars (indexed for inflation), as well as other changes.

The maximum federal estate, gift, and generation-skipping transfer (GST) tax rate increased to 40 percent (up from 35 percent); the $5 million inflation-adjusted exclusion available since passage of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 remains intact; and portability, which allows a surviving spouse to use the unused portion of his or her deceased spouse's gift and estate tax exclusion and has been available to estates since 2011, is now permanent.

Without ATRA, the estate tax would have returned to a maximum rate of 55 percent; with a 5-percent surtax applied to large estates (i.e., those in excess of $10 million up to $17,184,000), the exclusion would have been $1 million (not adjusted for inflation), and portability would have been repealed.

Rules for Surviving Spouses and Portability

Under ATRA rules, surviving spouses are eligible for the benefits offered by portability knowing that those benefits will not be going away. However, in order to take advantage of portability the estates of married decedents must decide whether they want to file a federal estate tax return (Form 706), even if one would not otherwise have been required.

For example, if one spouse died in 2016 after using only $2.5 million of his exclusion for lifetime gifts, his wife would still have her $5.45 million exclusion (or a higher amount depending on the inflation adjustment in the year of her death) as well as the remaining $2.95 million of her husband's exclusion, which is not indexed for inflation beyond the year of his death. The remaining exclusion would also be available to the surviving spouse for gift tax purposes.

"Not only did the law create a new permanent top tax rate, it also made portability permanent," Graziano added. "While the permanency of portability may cause some decedent's estates to consider filing an estate tax return to claim portability, many estate planners believe more traditional strategies may be more effective. Also, the estate tax return (Form 706) is very lengthy, with multiple schedules and involves valuation issues and complex tax laws that can make it very cumbersome and expensive to complete."

Additional Key Points on Estate Taxes and Portability

- Estates have up to 9 months after a person dies to file an estate tax return, but can, and often do, request a six-month extension
- Estates that fall below the exclusion amount are not required to file Form 706, but they must do so in order to make the portability election.
- Portability amounts are not indexed for inflation that occurs after death. As a result, a spouse who survives considerably longer could see assets worth $3 million, for example, more than double. Accordingly, any amount in excess of the then available estate tax exclusion could now be subject to tax at 40 percent.
- If a spouse remarries or has additional children, he or she can decide where the property will go; which may not be the same intentions of the decedent spouse.
- Assets are not protected from creditors.

"Despite the addition of portability, at least some estate planners still favor using traditional credit shelter trusts to address these issues," Graziano added. "But establishing and maintaining such trusts can also present certain costs."

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Ways to Save by Lowering Your Taxable Income

Wolters Kluwer Reviews Steps to Consider for Next Tax Season

(RIVERWOODS, IL, January 2016) — It's never too early to start tax planning, especially if you find yourself owing more to the IRS than you thought. There are several ways to help minimize taxable income by focusing on "tax-favorable" ways to allocate funds that are beneficial for both tax planning and for savings.

"Making new investments in retirement, education and healthcare accounts can really bring down the amount of your income that's subject to taxes," said Mildred Carter, JD and Senior Federal Tax Analyst for Wolters Kluwer Tax & Accounting. "If you are not benefitting from tax breaks with current investments, it may be worth looking at other options that encourage savings and can be beneficial for tax planning."

Checklist of Tax-friendly Investment Options

For taxpayers looking to get the most out of their investments, the following options may lower current taxes owed, allow investments to grow tax-free or a combination of both.

☐ **Maximize 401(k) matching contributions —** If your employer offers matching 401(k) contributions, contributing to the maximum matched amount is a great first tax-savings investment step.

"If your employer matches three percent of your contribution, that's free money to you as well as a significant amount of tax-free savings that many people may have a hard time putting aside on their own," said Carter.

Roth 401(k)s also have increased in popularity. Like traditional 401(k)s, money grows tax-free. However, unlike traditional 401(k)s, individuals pay taxes on the initial contribution rather than on the gains at future distribution. Additionally, while traditional 401(k)s have required minimum distributions (RMDs) starting at age 70½, Roth 401(k)s do not have RMDs.

"Even with higher current taxes, contributing to Roth 401(k)s can be a good choice, especially for younger individuals who anticipate the value of their accounts will appreciate considerably over time," Carter added.

The maximum amount an employee can contribute to a 401(k) remains unchanged for 2016 — up to $18,000 and $24,000 for those age 50 and over. The same rules apply for 457 and 403(b) retirement plans.

☐ **Contribute to an IRA —** Both traditional IRAs and Roth IRAs allow contributions to grow tax free. The maximum contribution also remains the same for 2016 — $5,500 for those under age 50. A $1,000 catch-up contribution also is allowed in each year for taxpayers 50 and older.

Contributions to traditional IRAs are tax deductible.

In 2016, if you are covered by a retirement plan at work, your deduction for contributions to a traditional IRA is reduced (phased out) if your modified adjusted gross income (AGI) is:

- More than $98,000 but less than $118,000 for a married couple filing a joint return or a qualifying widow(er)
- More than $61,000 but less than $71,000 for a single individual or head of household

As with Roth 401(k)s, contributions to Roth IRAs are not tax deductible, but there are no taxes on capital gains on distribution and no RMDs. The AGI restriction for Roth IRAs in 2016 for single filers is $117,000 phasing out at $132,000 (up from $116,000 and $131,000 in 2015). The restrictions for married taxpayers filing jointly in 2016 is $184,000 (up from $183,000 in 2015) phasing out at $194,000 (up from $193,000 in 2015).

Taxpayers have until **April 18, 2016,** to make an IRA contribution for 2015.

☐ **Contribute to a 529 education savings plan —** Named after Section 529 of the Internal Revenue Code which created these plans in 1996, 529 plans allow you to make after-tax contributions to pay for college costs for your child or other family members. The contributions grow tax-deferred and the funds can be withdrawn tax free if used for qualified college tuition and other expenses.

Nearly every state operates a plan as well as many educational institutions. In most instances, the state plan you select does not limit your choice of schools. For example, a resident in Illinois can invest in a California plan and send the student to a university in New York. The amount put into a 529 plan may be tax deductible under some state income taxes and distributions for qualified tuition and expenses are not taxed.

Additionally, while a beneficiary has to be named in order to open a 529 plan, the beneficiary can be changed to another family member at a later date. For example, if the initially designated beneficiary earns scholarships or chooses not to go to college, a different family member can be named beneficiary.

"Because 529 plans are funded with after-tax dollars, you don't have immediate tax savings, but avoiding future taxes on capital gains and dividends means you'll have saved more to cover education costs," said Carter.

☐ **Contribute to an HSA —** High-deductible health plans continue to increase in popularity as people look to lower their monthly health care premiums. Taxpayers with these plans also can open Health Savings Accounts (HSA) and make pre-tax contributions and take tax-free distributions for qualified medical expenses for themselves and their families. These distributions can be made at any time, for example, they could be made to pay for qualified expenses in the near-term or saved to cover health care expenses in retirement.

In order to be a high-deductible health plan under IRS standards, the plan must have a minimum annual deductible of $1,250 for individual coverage or $2,500 for family coverage.

For 2016, the maximum amount you can contribute to an HSA is $3,350 (unchanged from 2015) for individuals and $6,750 ($6,650 for 2015) for families. Those who reach age 55 by the end of the tax year are eligible for a catch-up contribution of $1,000. Contributions cannot be made by someone enrolled in Medicare.

As with IRAs, taxpayers also have until **April 18, 2016,** to make their 2015 HSA contributions.

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2015–2016 Tax Brackets

Married Filing Jointly (& Surviving Spouse)

2015 Taxable Income	Tax Rate	2016 Taxable Income	Tax Rate
Not over $18,450	10%	Not over $18,550	10%
$18,451 - $74,900	15%	$18,551 - $75,300	15%
$74,901 - $151,200	25%	$75,301 - $151,900	25%
$151,201 - $230,450	28%	$151,901 - $231,450	28%
$230,451 - $411,500	33%	$231,451 - $413,350	33%
$411,501 - $464,850	35%	$413,351 - $466,950	35%
Over $464,850	39.6%	Over $466,950	39.6%

Married Filing Separately

2015 Taxable Income	Tax Rate	2016 Taxable Income	Tax Rate
Not over $9,225	10%	Not over $9,275	10%
$9,226 - $37,450	15%	$9,276 - $37,650	15%
$37,451 - $75,600	25%	$37,651 - $75,950	25%
$75,601 - $115,225	28%	$75,951 - $115,725	28%
$115,226 - $205,750	33%	$115,726 - $206,675	33%
$205,751 - $232,425	35%	$206,676 - $233,475	35%
Over $232,425	39.6%	Over $233,475	39.6%

Single Filers

2015 Taxable Income	Tax Rate	2016 Taxable Income	Tax Rate
Not over $9,225	10%	Not over $9,275	10%
$9,226 - $37,450	15%	$9,276 - $37,650	15%
$37,451 - $90,750	25%	$37,651 - $91,150	25%
$90,751 - $189,300	28%	$91,151 - $190,150	28%
$189,301 - $411,500	33%	$190,151 - $413,350	33%
$411,501 - $413,200	35%	$413,351 - $415,050	35%
Over $413,200	39.6%	Over $415,050	39.6%

Head of Household

2015 Taxable Income	Tax Rate	2016 Taxable Income	Tax Rate
Not over $13,150	10%	Not over $13,250	10%
$13,151 - $50,200	15%	$13,251 - $50,400	15%
$50,201- $129,600	25%	$50,401- $130,150	25%
$129,601 - $209,850	28%	$130,151 - $210,800	28%
$209,851 - $411,500	33%	$210,801 - $413,350	33%
$411,501 - $439,000	35%	$413,351 - $441,000	35%
Over $439,000	39.6%	Over $441,000	39.6%

Standard Deduction Amounts

Filing Status	2015	2016	Increase
Married Filing Jointly (& Surviving Spouse)	$12,600	$12,600	$0
Married Filing Separately	$6,300	$6,300	$0
Single	$6,300	$6,300	$0
Head of Household	$9,250	$9,300	$50

Standard Deduction for Dependents ("Kiddie" Standard Deduction)

2015	2016	Increase
$1,050	$1,050	$0

Income Level at Which 3-Percent Itemized Deduction Limitation Takes Effect (Adjusted Gross Income)

Filing Status	2015	2016
Married Filing Jointly (& Surviving Spouse)	$309,900	$311,300
Married Filing Separately	$154,950	$155,650
Single	$258,250	$259,400
Head of Household	$284,050	$285,350

Personal Exemption Amounts

2015	2016	Increase
$4,000	$4,050	$50

Threshold for Personal Exemption Phase-out

Filing Status	2015	2016
Married Filing Jointly (& Surviving Spouse)	$309,900	$311,300
Married Filing Separately	$154,950	$155,650
Single	$258,250	$259,400
Head of Household	$284,050	$285,350

Gift Tax Exemption

2015	2014	Increase
$14,000	$14,000	$0

Educational Tax Breaks Available for Students

Wolters Kluwer Updates Qualifying Credits, Deductions

(RIVERWOODS, IL, January 2016) — Students and families looking for education-related tax break opportunities have plenty to pick from if they know what's available and where to look. Many tax provisions for saving on tuition and other school-related expenses remain in effect for those who qualify. The following information and tables include current education tax break updates and savings plan information.

Comparing Tax Credits

Two popular education tax breaks are The American Opportunity Tax Credit (AOTC), which provides up to a $2,500 credit for qualifying educational costs, and the Lifetime Learning Credit. The table below examines specifics and qualifications for each:

	American Opportunity Tax Credit	Lifetime Learning Credit
What it is	An enhanced Hope Credit of up to $2,500 per student per year for the first four years of post-secondary qualified tuition and expenses. Made permanent by the Protecting Americans from Tax Hikes (PATH) Act of 2015 (was set to expire after 2017).	A credit of up to $2,000 per return based on expenses for post-secondary education or courses to improve job skills.
Credit amount	100% of the first $2,000 of qualified tuition and related expenses plus 25% of the next $2,000. Use Form 8863, Education Credits.	20% of the first $10,000 in qualifying expenses, to a maximum $2,000 credit. Use Form 8863, Education Credits.
Qualifying expenses	Qualified tuition and related expenses, including expenditures for course materials, such as books, supplies and equipment.	Tuition, student activity fees and course-related fees paid directly to the educational institution.
Credit phase-out ranges	Modified adjusted gross income (MAGI) is $80,000-$90,000 for single filers, $160,000-$180,000 for joint returns. Modified adjusted gross income (MAGI) is $80,000-$90,000 for single filers, $160,000-$180,000 for joint returns. Up to 40% of the credit amount is refundable if the taxpayer's tax liability is insufficient to offset the nonrefundable credit amount. These numbers are not subject to inflation adjustment.	MAGI limits are $55,000-$65,000 for single filers for 2016 and $111,000-$131,000 for joint returns.

	American Opportunity Tax Credit	Lifetime Learning Credit
Who can/can't claim it	Can't be taken if married filing separately. Can't be taken by student claimed as dependent child on another person's return, but parent can claim credit for paying dependent child's expenses. Student must be enrolled in program leading to degree or other recognized credential, studying at least half-time. Can't be used for graduate or professional level programs or by anyone with a felony conviction for a state or federal drug offense. Cannot be claimed by the student if he or she has unearned income subject to the "kiddie tax."	Can't be taken if married filing separately. Can't be taken by a student if claimed as dependent child on another person's return, but parent can claim credit for paying dependent child's expenses.
What to watch out for	Can't be taken if Lifetime Learning Credit or tuition and fees deduction is taken for the same student. Can be taken in same year as a distribution from a Coverdell Educational Savings Account (Coverdell ESA) or qualified tuition program (529 plan), but not for same expenses. Can be taken for expenses paid for with student loan. Credit applies per student.	Can't be taken if American Opportunity Tax Credit or tuition and fees deduction is taken for the same student. Can be taken in same year as a distribution from a Coverdell ESA or 529 plan, but not for same expenses. Can be taken for expenses paid for with student loan. Credit applies per return.

'Above-the-line' Deductions

The Tuition and Fees and Student Loan Interest Deductions are compared below.

	Tuition and Fees Deduction	Student Loan Interest Deduction
What it is	A deduction from gross income of up to $4,000 ($2,000 if modified adjusted gross income (MAGI) exceeds $65,000 or $130,000 for joint filers; no deduction if MAGI exceeds $80,000 and $160,000, respectively) based on expenses for post-secondary education.	A deduction from gross income of up to $2,500 based on interest paid on a student loan for post-secondary education.
Deduction amount	100% of the first $4,000 ($2,000 if MAGI exceeds $65,000 for single filers ($130,000 for joint filers) in qualifying expenses. Taken on Form 1040A or 1040.	100% of the first $2,500 in qualifying expenses. Taken on Form 1040A or 1040.
Qualifying expenses	Tuition, student activity fees and course-related fees paid directly to the educational institution.	Loan may cover books, supplies, equipment, room and board, transportation and other necessary expenses in addition to tuition, student activity fees and course-related fees paid directly to the educational institution. Interest payments are deductible for the entire period of the loan.
Deduction phase-out ranges	Full deduction is only allowed if MAGI is not greater than $65,000 for a single filer, $130,000 for joint filers. For taxpayers whose income exceeds $65,000 but not $80,000 may claim $2,000 deduction; for individuals filing jointly whose income exceeds $130,000 but does not exceed $160,000 may claim a $2,000 deduction. Taxpayers whose income exceeds $80,000 and $160,000 are denied the deduction. These numbers are not inflation adjusted.	For 2016, MAGI is $65,000-$80,000 for a single filer, $130,000-$160,000 for joint filers.

	Tuition and Fees Deduction	Student Loan Interest Deduction
Who can/can't claim it	Can be taken by qualifying individuals including themselves, a spouse or a dependent. Can't be taken if married filing separately. Can't be taken if claimed as dependent on another person's return, but parent can claim credit for child's expenses.	Deduction may be taken even for voluntary payment of interest. Must have been in degree program and at least half-time student to take the deduction. Can't be taken if married filing separately. Can't be taken if claimed as dependent on another person's return. Can be taken only by the person who is responsible for the loan and who actually makes the payments.
What to watch out for	Can't be taken if AOTC or Lifetime Learning Credit is taken for the same student. Can be taken in same year as a distribution from a Coverdell ESA or qualified tuition program but not for same expenses. Can be taken for expenses paid for with student loan. Deduction is not available on Form 1040EZ. Deduction is taken on Form 8917, Tuition and Fees Deduction.	Must reduce qualified educational expenses by the total amount paid through tax-free sources, such as tax-free withdrawals from Coverdell ESAs. Deduction is not available on Form 1040EZ.

529 Educational Savings Plans, Coverdell Accounts

Below are tax break comparisons between Coverdell accounts and 529 college savings plans.

	Coverdell Education Savings Account (ESA)	Qualified Tuition Program (529 Plans)
What it is	A savings account for educational expenses in which earnings grow tax-free. Withdrawals also are tax free if used to pay for qualified educational expenses.	Three general types of 529 plans exist: • Pre-paid tuition plans — generally guaranteeing future tuition coverage at a state university. • State 529 college savings plans — generally sponsored by a state, allowing you to use saving plan proceeds to attend a state or private university. • Independent 529 plans — sponsored by a consortium of private colleges, whereby you can lock in current tuition rates for future years at participating schools. In each savings program, investment earnings are not taxed if withdrawals are used for qualified expenses. Contributions to state-sponsored programs are partially or fully deductible on some state tax returns.
Contribution limits	$2,000 maximum annual contribution per year per beneficiary. As with IRAs, contribution can be made up to the tax filing deadline which is April 18, 2016 for most states. Can contribute to both a Coverdell ESA and a qualified tuition plan in the same year.	Contributions cannot be more than is necessary to provide for the higher education expenses of the beneficiary. These amounts are set by the state or educational institutions sponsoring the plan and may be in excess of $300,000. In the case of many 529s, accounts can be opened with as little as $25 and contributions as little as $15 per pay period. There are no other specific annual contribution limits for the plans.

	Coverdell Education Savings Account (ESA)	Qualified Tuition Program (529 Plans)
Qualifying expenses	Can be used to pay for tuition, fees, books, supplies and equipment for both K-12 and post-secondary. For K-12, can also pay for uniforms, transportation, supplementary items and services such as extended day programs, room and board, and purchase of computer technology and Internet access (but cannot be used for sports, games or hobby software unless it is predominantly educational). For post-secondary education, can cover expenses for room and board if the student is enrolled at least half-time and the amount meets certain guidelines. Can also be used to fund a qualified tuition program.	Distributions can be used for accredited post-secondary books, supplies, equipment, room and board, transportation and other necessary expenses in addition to tuition, and student activity fees and course-related fees paid directly to the accredited post-secondary educational institution. Expenses related to the cost of computer equipment, technology or Internet access are not considered qualifying expenses for excluding qualified tuition plan distributions from gross income.
Contribution phase-out ranges	The phase-out ranges from modified adjusted gross income (MAGI) of $95,000-$110,000 for single filers, $190,000-$220,000 for joint filers; no phase out for corporation or other entities, including tax-exempt organizations. These numbers are not subject to inflation adjustment.	No income limitations.
Who can/can't claim it	Beneficiary must be younger than 18 years old or be a special needs beneficiary in the year contributions are made. Anyone can set up an account for a beneficiary as long as the annual contribution limits for that beneficiary are not exceeded.	Someone funding a qualified tuition program for another individual can use the annual gift tax exclusion or combine five years' worth of exclusions in a single year. The beneficiary can exclude funds withdrawn from the qualified program from income if they are used for qualified expenses.

	Coverdell Education Savings Account (ESA)	Qualified Tuition Program (529 Plans)
What to watch out for	Beneficiary is taxed on any withdrawals not used to pay for qualified educational expenses. (Penalty-free withdrawals can be made in connection with service academy appointments, such as Annapolis or West Point.) All funds must be withdrawn by the time beneficiary reaches age 30 (except if special needs individual), but an account can be transferred from one beneficiary to another. All contributions must be made in cash. As with a conventional IRA, owner of the account can exercise wide discretion as to investments. The funds, however, cannot be used to reimburse the taxpayer for home schooling.	Check tax treatment of contributions for state income tax purposes. Limited ability to change investment options. Possible 10% penalty if distributions are not used for qualified expenses. Beneficiary can be changed if new beneficiary is a member of the same family. Penalty-free withdrawals can be made in connection with service academy appointments, such as Annapolis or West Point.

Exclusions

Several exclusions also are available for taxpayers related to education:

- **Bond interest:** All or part of the interest on proceeds of qualified savings bonds (specifically, Series I bonds or qualified Series EE bonds issued after 1989) cashed to pay education expenses. For 2015, MAGI eligibility phase-out ranges are $77,200-$92,200 for single filers, $115,750-$145,750 for joint returns.

- **Employer assistance:** For 2015 tax filing, employer-provided educational assistance (up to $5,250 annually) can be excluded from income for undergraduate or graduate level coursework and expenses.

- **Scholarship funds:** Scholarship money or tuition reduction from income up to the amount spent on qualified expenses; generally cannot claim exclusion if scholarship or tuition reduction represents payment for teaching, research or other services. There is also an exclusion for Armed Forces and National Health Service Corps scholarship programs.

- **Student loans:** The amount of a cancelled student loan is also excluded from gross income. (Normally, a cancellation of indebtedness counts as income.) The discharge must be made under the terms of a loan agreement and made because the person works for a specified period in certain professions for certain kinds of employers — for example, as a doctor or nurse in underserved areas.

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Important Dates in United States Tax History

Release 17

1862	Abraham Lincoln enacts emergency measure to pay for Civil War: Minimum 3% tax rate.
1872	Lincoln's income tax law lapses.
1894	2% federal income tax enacted.
1895	Income tax ruled unconstitutional by U.S. Supreme Court in Pollack v. Farmer's Loan and Trust.
1909	16th amendment that authorizes Congress to collect taxes on income is proposed.
1913	Wyoming casts 37th vote, ratifying the 16th amendment. One in 271 people pays 1% rate.
1926	Revenue Act of 1926 reduces taxes: Too much money being collected.
1939	Revenue statutes codified. One out of 32 citizens pays 4% rate.
1943	One out of three people pays taxes. Withholding on salaries and wages introduced.
1954	875-page Internal Revenue Code of 1954 passes. Considered the most monumental overhaul of federal income tax system to date. 3,000 changes to tax rules.
1969	Tax Reform Act: Major amendments to 1954 overhaul.
1984	Reagan Tax Reform Act: Most complex bill ever, requires over 180 technical corrections.
1986	Tax Reform Act reduces tax brackets from five to two.
1993	Clinton's Revenue Reconciliation Act passes by one Vice Presidential vote.
1996	Four bills make over 700 changes, including Medical Savings Accounts and SIMPLE plans.
1997	Taxpayer Relief Act brings more than 800 changes. Child tax credit, Roth IRAs, capital gains reduction, breaks for higher education enacted.
2001	Tax Relief Act creates 441 changes. Lowers tax rates, repeals estate tax, increases contribution limits on 401(k)s and IRAs.
2002	The Job Creation and Worker Assistance Act brings business tax relief, including a 5-year net operating loss carryback and extends and adds depreciation.
2003	Jobs and Growth Tax Relief Reconciliation Act lowers taxes on capital gains and dividends, accelerates marginal tax rate cuts, brings marriage penalty relief, increases child tax credit, extends bonus depreciation and more. Bills passed late in the year bring military tax relief and Medicare reform.
2004	Back-to-back tax bills, Working Families Tax Relief Act and American Jobs Creation Act, brought the most tax law changes since 1986. The American Jobs Creation Act gave ordinary taxpayers, as well as businesses of all sizes, tax relief.
2005	Congress used the tax code to encourage energy savings and cope with natural disasters in the Energy Policy Act of 2005, the Katrina Emergency Tax Relief Act of 2005 and the Gulf Opportunity Zone Act of 2005.
2006	Congress passed three major laws affecting taxes and several minor ones, making more than 500 changes to the Internal Revenue Code altogether. Among other things, temporary capital gains and dividend rates of 15% (0% for the bottom two brackets) were extended for two years beyond 2008 and the AMT exemption was increased, but for 2006 only.
2007	Congress passed another temporary "fix" for the AMT, extended the reach of the "kiddie tax" to age 18 (age 23 for students) beginning in 2008 and changed the rules on forgiveness of debt to benefit homeowners facing foreclosure or reworking their mortgages.
2008	Six big tax laws passed: Economic Stimulus Act; Heroes Earnings Assistance and Relief Tax Act; Housing Assistance Tax Act; Emergency Economic Stabilization Act; Worker, Retiree and Employer Recovery Act; and Heartland, Habitat, Harvest and Horticulture Act. Among the major provisions of these laws were economic stimulus rebates, a first-time homebuyers credit, an additional standard deduction for real property taxes, extension of expiring deductions and yet another temporary AMT "fix."
2009	Congress passed a major stimulus bill with nearly $300 billion in tax relief, providing for a Making Work Pay Credit, an American Opportunity Credit to expand on existing higher education credits, expansion of the first-time homebuyer credit, an enhanced child credit, expanded net loss carrybacks for business and expanded energy credits. The homebuyer credit and net loss provisions were later extended and expanded in the Worker, Homeownership, and Business Assistance Act.
2010	Congress at year-end extended tax breaks that had expired at the end of 2009 for two years through 2011 and extended tax breaks from the 2001 and 2003 Tax Acts scheduled to sunset at the end of 2010 for two years through 2012; a payroll tax reduction was also enacted for 2011. Other legislation enacted during the year included tax provisions with respect to health care reform, hiring stimulus and small business stimulus.
2013	Congress permanently extends tax cuts from 2001 and 2003 for all but the highest income taxpayers. New Net Investment Income tax and Medicare Contribution tax become effective. Leading tax, accounting and audit information, software and services provider Wolters Kluwer Tax & Accounting US celebrates its 100th anniversary serving professionals since 1913 — the year the modern federal income tax became law in the U.S.
2014	New penalty for failure to obtain health insurance and credit to assist with health insurance premiums become effective.
2015	New penalty for employers who fail to provide health insurance becomes effective. States are authorized to set up plans to allow tax-favored accounts for disabled persons.
2016	Many regularly expiring tax breaks made permanent.

Source: Wolters Kluwer, 2016 Permission for Use Granted. Last revised January 18, 2016.

Average Itemized Deductions

(Data Based on Preliminary 2013 IRS Statistics)

Based on the latest IRS statistics, itemized deductions were claimed on almost 30 percent of all tax returns filed and represented an estimated 57 percent of the total deductions amount. The average for total itemized deductions (after limitation) was $25,568, a 1.9-percent decrease from the average of $26,054 for 2012.

The following are preliminary figures released by the IRS (their reports lag behind the current tax year because of the time needed to compile figures). These are averages only. The IRS cautions taxpayers that they should **not** base their claimed deductions on these figures.

The numbers are useful, however, for two purposes:

1. to see if your actual deduction is out of line (so you can take extra care to document your claim); and
2. to see if the deductions meet the expectations of policymakers.

Also, note that these averages take into account only those individuals who claimed an itemized deduction for that type of expense. Zero deductions are not factored in. Thus, the "average" taxpayer with adjusted gross income between $50,000 and $100,000 did not take an "average" medical expense deduction of $7,988, only the "average" taxpayer who itemized did.

	Medical Expenses	Taxes	Interest	Charitable Contributions
under $15,000	$8,115	$3,434	$7,593	$1,531
$15,000 to $30,000	$8,324	$3,275	$6,722	$2,253
$30,000 to $50,000	$7,937	$4,039	$6,839	$2,609
$50,000 to $100,000	$9,133	$6,354	$7,780	$3,083
$100,000 to $200,000	$11,929	$10,991	$9,462	$4,074
$200,000 to $250,000	$18,455	$17,861	$11,957	$5,452
$250,000 or more	$36,883	$51,605	$17,060	$20,930

Source: Wolters Kluwer, 2016 Permission for Use Granted.

Avoiding an Audit

(or making it less painful if you do get audited)

Be aware: The IRS has resumed its practice of conducting random audits as a way to evaluate its audit selection criteria. Burdensome complete audits of taxpayers are rare. Random selection, however, makes these audits hard to avoid.

Here are some automatic problems:

Missing information	• The IRS will contact you if you omit identifying information or information required to compute your tax. Missing Social Security Numbers are typical (including the Social Security Numbers of dependents and ex-spouses who are receiving alimony from you). • This probably doesn't change your odds of a real audit unless you can't or won't comply with the IRS request to supply the information or there is something else glaringly wrong with the return. If all goes well, your return will just go back into the "pile" to await possible selection in the normal audit "lottery."
Math error procedures	• If the return contains a math or clerical error, the IRS may assess and send a notice of additional tax due without following the normal tax deficiency procedures. Congress has extended this power to certain other omissions and claims on a return that one would not normally think of as math or clerical errors. • If you are claiming certain credits that require a Taxpayer Identification Number (TIN) on the tax return, make sure the information that the TIN issuer has is correct. If there is a discrepancy between the number you provide, and that provided to the IRS by the TIN issuer (such as the Social Security Administration), the IRS will assume that the information provided by the TIN issuer is valid and treat your return as if you omitted a valid number. The IRS can then use the math error procedure to summarily assess any additional taxes due as a result of the disallowed credits.
Items not to claim	The IRS will automatically disallow the following as contrary to law: • losses on the sale of your home or personal property; • surviving spouse filing status for more than two years; • medical deduction for (a) unnecessary cosmetic surgery, (b) funeral expense, (c) diet foods; • itemized deduction for the following taxes (a) FET on tires, (b) car registration (vehicle tax based on value is deductible), (c) import duties (and others); • personal interest expense deduction (except on a qualified home mortgage); • personal insurance expense deduction, except medical, long-term care, mortgage; and • moving expense deduction in excess of legal limit.
Married filing separately	• Both must itemize or both must take the standard deduction.

Source: Wolters Kluwer, 2016 Permission for Use Granted.

W-2s, 1098s and 1099s	• Make sure you report the exact numbers you get on your W-2 wage statement 1098 for mortgage interest and 1098-T for education expense or 1099 statements of interest, mutual fund gains, dividends, stock basis, gambling winnings, pensions, etc. The IRS can match these to your return and a discrepancy can trigger an audit. • If you get a W-2, 1098 or 1099 that is in error, immediately try to have a corrected form filed. Discrepancies between information on your return and tax forms are a red flag for the IRS. • If you are required to divide the numbers up between various lines on your return or the numbers are wrong, be sure you can explain (and get the issuer of the statement to correct errors).

The IRS has access to a lot of information beyond your return and beyond W-2s and 1099s. For example:

Partnerships, S corporations, trusts	• Make sure your return is consistent with the return of any partnership or S corporation you are a part of; any trust you receive income from, etc.
Prior dealings with the IRS	• If you have been audited before, the IRS will remember. Don't repeat past mistakes. • If you have requested a ruling from the IRS, make sure your return is consistent with the ruling — unless you want to go to court on the issue.
Tax items that affect more than one year	• If you took depreciation on a piece of property and you've now sold it, make sure that the gain or loss you report this year is consistent with the costs and write-offs you reported in previous years.

Here are some common problems that could come up if you are audited:

If you own rental property	• If you live on the premises, do you keep personal and business expenses separate (including depreciation)?
Job-related expenses (unreimbursed)	• Do you have proper records? • Did you properly deduct meals and entertainment expenses (usually 50% is allowed)? • If you used a car or computer (or other property) partly for work and partly for pleasure, did you deduct only the work portion of the expense?
Job-related expenses (reimbursed)	• There shouldn't be a deduction unless the reimbursement failed to cover the expense. • Was the reimbursement under an "accountable plan" maintained by your employer? Did you have to give the records to your employer and was the reimbursement limited to the expense, as required?
Tips	• Are you in an occupation that normally receives tips (waiter, cab driver, porter, beautician)? The tips you report should be reasonable, given the type of job and the hours you devote to it.

Source: Wolters Kluwer, 2016 Permission for Use Granted.

Unusually large interest expense	• Are you taking a large interest deduction without the apparent funds to repay the loan? The IRS will suspect you are receiving income without reporting it.
Foreign Asset Reports (FATCA and FBARs)	• Did you indicate on Form 1040 Schedule B, line 7a that you have a foreign account and fail to timely file the FBAR FinCEN Report 114? Did you have foreign assets that you failed to include on Form 8938? The IRS will suspect that you are hiding foreign income. Substantial penalties can apply.
Health Care	• Have you properly calculated any premium assistance credit and whether you are subject to a penalty for failure to obtain health insurance, and do you have the documentation to support them?

The IRS is currently focusing its limited audit resources on offshore income and assets; high-risk/high-income taxpayers; small businesses; abusive tax shelter schemes and their promoters; non-filing by high-income taxpayers; unreported income; and tax exempt entities.

If you have a business, here are some items the IRS looks for:

Completed returns prepared by professionals	• A return that is complete, has all schedules in place and is prepared by a professional is less likely to be audited. (The IRS does rely on your accountant's unwillingness to do certain improper things.)
Related corporations have higher audit risk	• Don't think you can put one over on the IRS by creating multiple corporations. Groups of corporations under common control are more likely to be audited.
Small businesses	• Small businesses tend to lack "internal controls" — accounting systems that the IRS can rely on. • If you are worried about being audited some day, put a good accounting system in place today. And stick to it. The IRS will take that as a sign that you are making an effort to comply.
The IRS will know your business	• IRS auditors are becoming more knowledgeable about your specific business. (The MSSP program is part of this.) They will know what to expect on your return and what is bogus. The restructuring of the IRS into units that serve groups of taxpayers with similar needs (individuals, small businesses, large businesses and tax exempts) is improving the agency's ability to scrutinize taxpayer activity.
Fringe benefits	• There are strict rules for health insurance, life insurance and pensions to assure that the expense is a business expense and not a personal expense solely for the welfare of your family.
Credit card and Internet payments	• Credit card and Internet payment processors are now required to report payments on Form 1099-K. Make sure the tax return reflects those amounts.

Source: Wolters Kluwer, 2016 Permission for Use Granted.

Employment taxes	• The IRS takes a dim view of classifying employees as "independent contractors," just to avoid withholding taxes and other obligations. • If the IRS finds that you've issued a lot of 1099s rather than W-2s (or worse — you didn't issue any statements but attempted to deduct the expense) for this kind of work, you'd better be on solid ground for your "independent contractor" classification, or the IRS will sock you for a lot of back tax and penalties. • A growing concern for the IRS is companies' attempts to avoid liability for employment taxes for independent contractors by maintaining the employee works for the customer, not the company. Although recent cases have upheld the classification of certain employees as independent contractors without the filing of 1099s, the IRS is paying very close attention to this area.
Lots of money or investments in the business	• There are special taxes to prevent you from holding excess money in a corporation or running your personal investments there. The IRS will see this on your balance sheet.
Tax-motivated transactions	• The IRS is on the lookout for transactions undertaken solely for tax avoidance with no business purpose.

Individual Audit Data[1]

Individual Returns Filed	Percentage Audited	
	2012	2013
Total Individual Tax Returns	1.0%	0.9%
TPI < $200,000		
• 1040 without Schedule C, E, F, Form 2016 or Earned Income Tax Credit [2]	0.3%	0.3%
• 1040 without Schedule C, F or Earned Income Tax Credit; with Schedule E or Form 2106 [3]	1.0%	0.7%
TPI $200,000 < $1 million, non-business returns	2.5%	2.2%
TPI $1 million or more	10.8%	7.5%

TPI = Total Positive Income

Forms Filed By Self-employed Individuals (Schedule C)	Percentage Audited	
	2012	2013
Sch. C TGR < $25,000	1.0%	1.0%
Sch. C TGR $25,000 < $100,000	2.3%	1.9%
Sch. C TGR $100,000 < $200,000	3.0%	2.4%
Sch. C TGR $200,000 or more	2.7%	2.1%

TGR = Total Gross Receipts; does not include returns with Earned Income Tax Credit.

1 Data is from returns filed in calendar year 2012 and 2013, and is the most current available.

2 Includes individual tax returns filed without a Schedule C (nonfarm sole proprietorship); Schedule E (supplemental income and loss); Schedule F (profit or loss from farming); or Form 2106 (employee business expense).

3 Includes individual tax returns filed with a Schedule E (supplemental income and loss) or Form 2106 (employee business expenses) but without a Schedule C (nonfarm sole proprietorship) or Schedule F (profit or loss from farming).

Source: Wolters Kluwer, 2016 Permission for Use Granted.

Retirement by the Numbers: Employer Plans, IRAs and the Saver's Credit

Saving Opportunities Remain the Same Across Retirement Plans for 2016

Both IRA contribution levels and contribution limits to employer-sponsored programs are subject to cost of living adjustments (COLAs). IRA contribution levels remained the same from 2015 to 2016. The contribution levels for 401(k)s and other employer-sponsored programs also remained the same for 2016.

The allowable adjusted gross income (AGI) parameters for IRAs did increase for 2016. Income thresholds for 2016 also increased under the Retirement Savings Contributions Credit, commonly known as the Saver's Credit, which is a nonrefundable tax credit that allows lower- and middle-income retirement plan participants to use elective contributions to reduce their federal income tax.

Employer-sponsored Programs

Retirement Vehicle	Maximum 2016 Employee Contribution [1]	Catch-up Contributions
401(k), 457 and 403(b) plans	$18,000 — pre-tax dollars (unchanged from 2015)	$6,000 (unchanged from 2015)
SIMPLE plans	$12,500 — pre-tax dollars (unchanged from 2015)	$3,000 (unchanged from 2015)
SARSEP [2] (Salary Reduction SEP)	$18,000 — pre-tax dollars (unchanged from 2015)	$6,000 (unchanged from 2015)

IRAs [3]

Retirement Vehicle	Maximum 2016 Contribution Limits [1]	Catch-up Contributions	Adjusted Gross Income (AGI) Restrictions
Traditional Deductible IRA	$5,500 (same as 2015)	$1,000 (same for 2015)	For active participants in employer provided plan: **Single filers:** under $61,000 phasing out completely at $71,000 (same as for 2015) **Married, filing jointly:** under $98,000 phasing out completely at $118,000 (same as for 2015)
Traditional Nondeductible IRA	$5,500 (same as 2015)	$1,000 (same for 2015)	N/A

Roth IRA Nondeductible	$5,500 (same as 2015)	$1,000 (same for 2015)	**Single filers:** under $117,000 phasing out completely at $132,000 (under $116,000 phasing out completely at $131,000 for 2015) **Married, filing jointly:** under $184,000 phasing out completely at $194,000 (under $183,000 phasing out completely at $193,000 for 2015)

Retirement Savings Contributions Credit [4]

Retirement Vehicle	2016 Maximum Credit	Adjusted Gross Income (AGI) Restrictions
IRAs, Roth IRAs, SIMPLE Plans, 401(k)s and other qualified retirement plans	$1,000 for single filers $2,000 for joint filers	**Single filers:** $30,750 or less ($30,500 for 2015) **Head of household filers:** $46,125 or less ($45,750 for 2015) **Married, filing jointly:** $61,500 or less ($61,000 for 2015)

[1] Subject to COLAs.

[2] SARSEPs must have been established prior to January 1, 1997. The maximum contribution and catch-up amounts are the same as for 401(k), 457 and 403(b) plans.

[3] Individuals have generally until the tax filing deadline (April 18, 2016, except Maine and Massachusetts which has a deadline of April 19, 2016), to make contributions to their IRAs for 2015.

[4] Depending on AGI, the Retirement Savings Contribution Credit, commonly referred to as the Saver's Credit, provides a credit ranging from 10% to 50% with lower income taxpayers being eligible for a higher credit. For example, a married taxpayer filing jointly with an AGI of less than $37,000 making a $2,000 retirement plan contribution in 2016 could be eligible for a 50% credit, or $1,000. By contrast, if that same taxpayer had an AGI between $37,000 and $39,999, would be eligible for a 20% credit, or $400; an AGI between $40,000 and $61,499 would make that same taxpayer eligible for a 10% credit, or $200.

A Historical Look at Capital Gains Rates

Year	Individuals — Maximum Capital Gains Rates	Corporations — Maximum Capital Gains Rates
1913–1921	same as regular rate	same as regular rate
1922–1933	12.5%	12.5%
1934–1935	17.7%*	13.75%
1936–1937	22.5%*	15.0%
1938–1941	15.0%	same as regular rate
1942–1951	25.0%	25.0%
1952–1953	26.0%	26.0%
1954	25.0%	26.0%
1955–1967	25.0%	25.0%
1968	26.9%	25.0%
1969	27.5%	25.0%
1970	30.2%	25.0%
1971	32.5%	25.0%
1972–1974	35.0%	25.0%
1975–1977	35.0%	30.0%
1978	33.8%	30.0%
1979	35.0%	30.0%
1980–1981 (June 9)	28.0%	28.0%
1981 (after June 9)–1986	20.0%	28.0%
1987–1992	28.0%	34.0%
1993–1997 (May 6)	28.0%	35.0%
1997 (after May 6)–2003 (May 5)	20.0%	35.0%
2003 (after May 5)–2012	15.0%	35.0%
2013–2016	20.0%	35.0%

* Assumes 10-year holding period, 30% of gain recognized (sliding scale for exclusion based on holding period).

Please note: Tax law is complex. While an accurate representation of capital gains rate history, this chart may not reflect various factors (such as excess profit taxes, phase-ins, rates on special categories of gain and AMT) that could have affected capital gains taxes throughout the years.

Source: Wolters Kluwer, 2016 Permission for Use Granted.

A Historical Look at Top Marginal Income Tax Rates

Note: For much of tax history, the top rate is figured by adding a "surtax" rate to a basic rate.

Year	Regular	Surtax	Total Top Rate
1913–1915	1%	6%	7%
1916	2%	13%	15%
1917	4%	63%	67%
1918–1921	8%	65%	73%
1922–1923	8%	50%	58%
1924	6%	40%	46%
1925–1931	5%	20%	25%
1932–1933	8%	55%	63%
1934–1935	4%	59%	63%
1936–1940	4%	75%	79%
1941	4%	77%	81%
1942–1943	6%	82%	88%
1944	3%	91%	94%
1945–1963	3%	88%	91%
1964	3%	74%	77%
1965–1981	70%		70%
1982–1986	50%		50%
1987	38.5%		38.5%
1988–1990*	33%		33%
1991–1992	31%		31%
1993–2000	39.6%		39.6%
2001	39.1%		39.1%
2002	38.6%		38.6%
2003–2012	35%		35%
2013–2016	39.6%		39.6%

* During 1988-90, tax on top income could not be determined without using a worksheet, but 33% appears to have been the highest rate paid.

Source: Wolters Kluwer, 2016 Permission for Use Granted.

Historical Look at Estate and Gift Tax Rates

Maximum Estate Tax Rates (1916–2016)

In effect from September 9, 1916, to March 2, 1917	10% of net estate in excess of $5 million
In effect from March 3, 1917, to October 3, 1917	15% of net estate in excess of $5 million
In effect from October 4, 1917, to 6:55 p.m. EST, February 24, 1919	Basic estate tax of 15% of net estate in excess of $5 million plus war estate tax of 10% of net estate tax in excess of $10 million
In effect from 6:55 p.m. EST, February 24, 1919, to 10:25 a.m. EST, February 26, 1926	25% of net estate in excess of $10 million
In effect after 10:25 a.m. EST, February 26, 1926, to 5 p.m. EST, June 6, 1932	20% of net estate in excess of $50 million [1]
In effect from 5 p.m. EST, June 6, 1932, to May 10, 1934	45% of net estate in excess of $50 million [1]
In effect from May 11, 1934, to August 30, 1935	60% of net estate in excess of $50 million [1]
In effect from August 31, 1935, to June 25, 1940	70% of net estate in excess of $50 million [1]
Estates of decedents dying after June 25, 1940, but before September 21, 1941	70% of excess of net estate over $10 million [1] plus a defense tax of 10% of the total tax computed under the basic and additional estate taxes (in effect, maximum tax was 77%)
Estates of decedents dying after September 20, 1941, but before August 17, 1954	77% of excess of net estate over $10 million [1]
Estates of decedents dying after August 16, 1954, but before 1977	77% of excess over $10 million
Estates of decedents dying after 1976 but before 1982	70% of excess over $5 million
Estates of decedents dying in 1982	65% of excess over $4 million
Estates of decedents dying in 1983	60% of excess over $3.5 million
Estates of decedents dying after 1983 and before 1988	55% of excess over $3 million
Estates of decedents dying after 1987 and before 1998	55% of excess over $3 million (effectively 60% for estates in excess of $10 million but less than $21,040,000 because of a surtax to phase out benefits of the graduated rates and unified credit)
Estates of decedents dying in 1998 through 2001	55% of excess over $3 million (effectively 60% for estates in excess of $10 million but less than $17,184,000 because of surtax to phase out benefits of only the graduated rates)
Estates of decedents dying in 2002	50% of excess over $ 2.5 million [2]
Estates of decedents dying in 2003	49% of excess over $2 million
Estates of decedents dying in 2004	48% of excess over $2 million

Estates of decedents dying in 2005	47% of excess over $2 million
Estates of decedents dying in 2006	46% of excess over $2 million
Estates of decedents dying in 2007 and 2008	45% of excess over $2 million [3]
Estates of decedents dying in 2009	45% of excess over $3.5 million
Estates of decedents dying in 2010	35% of excess over $5 million and stepped-up basis for inherited assets, or election for no estate tax, but carryover basis for inherited assets [4]
Estates of decedents dying in 2011	35% of excess over $5 million [5]
Estates of decedents dying in 2012	35% of excess over $5,120,000 (as adjusted for inflation) [5]
Estates of decedents dying in 2013	40% of excess over $5,250,000 (as adjusted for inflation) [6]
Estates of decedents dying in 2014	40% of excess over $5,340,000 (as adjusted for inflation) [6]
Estates of decedents dying in 2015	40% of excess over $5,430,000 (as adjusted for inflation) [6]
Estates of decedents dying in 2016 and later	40% of excess over $5,450,000 (as adjusted for inflation) [6]

For Estate Taxes:

[1] Estate tax was composed of a basic estate tax plus an additional estate tax; in effect, estates never paid more than the amount of the additional estate tax.

[2] Beginning in 2002, the surtax on estates in excess of $10 million is repealed. In addition, the maximum estate tax rate began to decrease, while the applicable exclusion amount for estate tax purposes (i.e., the lifetime amount shielded from estate tax) began to increase. During the years 2002 through 2009, the estate tax applicable exclusion amount was $1 million in 2002 and 2003, $1.5 million in 2004 and 2005, $2 million in 2006 through 2008, and $3.5 million in 2009.

[3] Although the estate tax rate schedule for 2007 through 2009 (Code Sec. 2001) shows the 45% rate being imposed on estates in excess of $1.5 million, the estate tax applicable exclusion amount effectively precludes taxation of any transfers in an amount below $2 million in 2006 through 2008 and $3.5 million in 2009.

[4] The Tax Relief, Unemployment Reauthorization and Job Creation Act of 2010, reinstates the estate tax effective for decedents dying after December 31, 2009. However, the Tax Relief Act of 2010 also provides an election for the estates of decedents dying in 2010 to use the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) rules of no estate tax, but a carryover basis for inherited assets. Accordingly, few estates of decedents dying in 2010 will actually be subject to the estate tax. In addition, although the estate tax rate schedule for 2010 through 2012 (Code Sec. 2001) shows the 35% rate being imposed on estates in excess of $500,000, the estate tax applicable exclusion amount effectively precludes taxation of any transfers in an amount below $5 million in 2010 and 2011, and $5,120,000 in 2012.

[5] Beginning in 2011, the Tax Relief Act of 2010 allows a surviving spouse to utilize the unused portion of the applicable exclusion amount (as otherwise increased under the Act) of his or her last predeceased spouse. An election by the predeceased spouse's estate is required.

[6] The Tax Relief Act of 2010 reinstates the estate tax at a lower rate and a higher exclusion amount than would have been the case if the sunset called for under EGTRRA had occurred. However, the Tax Relief Act of 2010 was only to apply to estates through 2012. It was scheduled to sunset in 2013, leaving the law as if EGTRRA and the Tax Relief Act of 2010 had never been passed. The American Taxpayer Relief Act of 2012 struck the sunset provisions of EGTRRA and the 2010 Tax Relief Act, thus making the changes enacted by those laws permanent. The 2012 American Taxpayer Relief Act also raised the maximum estate tax rate to 40%. Although the estate tax rate schedule for 2013 and beyond (Code Sec. 2001) shows the 40% rate being imposed on estates in excess of $1,000,000, the applicable exclusion amount effectively precludes taxation of any transfers in an amount below $5,450,000 in 2016 (it was $5,430,000 in 2015, $5,340,000 in 2014, and $5,250,000 in 2013).

Maximum Gift Tax Rates (1924–2016)

1924–1925	40% on transfers in excess of $10 million over the course of the donor's lifetime
1926–June 6, 1932	No gift tax imposed (repealed by the Revenue Act of 1926)
June 7, 1932–1934	33.5% on transfers in excess of $10 million over the course of the donor's lifetime
1935	45% on transfers in excess of $10 million over the course of the donor's lifetime
1936–1940	52.5% on transfers in excess of $50 million over the course of donor's lifetime
1941	52.5% on transfers in excess of $50 million over the course of the donor's lifetime, plus a defense tax of 10% of the total tax computed (in effect, maximum tax was 57.75%)
1942–1976	57.75% on transfers in excess of $10 million over the course of the donor's lifetime
1977–1981	70% of transfers in excess of $5 million over the course of the donor's lifetime
1982	65% of transfers in excess of $4 million over the course of the donor's lifetime
1983	60% of transfers in excess of $3.5 million over the course of the donor's lifetime
1984–1987	55% of transfers in excess of $3 million over the course of the donor's lifetime
1988–1997	55% of transfers in excess of $3 million over the course of the donor's lifetime (effectively 60% for transfers in excess of $10 million but less than $21,040,000 because of a surtax to phase out the benefits of the graduated rates and unified credit)
1998–2001	55% of transfers in excess of $3 million over the course of the donor's lifetime (effectively 60% for transfers in excess of $10 million but less than $17,184,000, because of a surtax to phase out the benefits of only the graduated rates)
2002	50% of transfers in excess of $ 2.5 million over the course of the donor's lifetime
2003	49% of transfers in excess of $2 million over the course of the donor's lifetime
2004	48% of transfers in excess of $2 million over the course of the donor's lifetime [1]
2005	47% of transfers in excess of $2 million over the course of the donor's lifetime
2006	46% of transfers in excess of $2 million over the course of the donor's lifetime
2007–2009	45% of transfers in excess of $1.5 million over the course of the donor's lifetime
2010	35% of transfers in excess of $1 million over the course of the donor's lifetime [2]
2011	35% of transfers in excess of $5 million over the course of the donor's lifetime [3]
2012	35% of transfers in excess of $5,120,000 (as adjusted for inflation) over the course of the donor's lifetime [3]
2013	40% of transfers in excess of $5,250,000 (as adjusted for inflation) over the course of the donor's lifetime [4]
2014	40% of transfers in excess of $5,340,000 (as adjusted for inflation) over the course of the donor's lifetime [4]
2015	40% of transfers in excess of $5,430,000 (as adjusted for inflation) over the course of the donor's lifetime [4]
2016	40% of transfers in excess of $5,450,000 (as adjusted for inflation) over the course of the donor's lifetime [4]

For Gift Taxes:

[1] Beginning in 2004, the applicable exclusion amount for gift tax purposes (i.e., the lifetime amount shielded from gift tax) differed from the amount used for estate tax purposes. During the years 2002 through 2010, the gift tax applicable exclusion amount remained constant at $1 million, while the estate tax applicable exclusion amount was $1 million in 2002 and 2003, $1.5 million in 2004 and 2005, $2 million in 2006 through 2008 and $3.5 million in 2009.

[2] Although the gift tax rate schedule for the years 2010 through 2012 (Code Sec. 2502) shows the 35% rate being imposed on transfers in excess of $500,000, the gift tax applicable exclusion amount effectively precludes taxation of any transfers in an amount below $1 million in 2010, $5 million in 2011, and $5,120,000 in 2012.

[3] Beginning in 2011, the Tax Relief Act of 2010 allows a surviving spouse to utilize the unused portion of the applicable exclusion amount (as otherwise increased under the Act) of his or her last predeceased spouse. An election by the predeceased spouse's estate is required.

[4] The Tax Relief Act of 2010 lowered the top tax rate and increased the exclusion amount to $5 million compared to what would have been the case if the transfer tax provisions of EGTRRA had been allowed to sunset as planned. However, the Tax Relief Act of 2010 was only to apply to gift taxes through 2012. It was scheduled to sunset in 2013, leaving the law as if EGTRRA and the Tax Relief Act of 2010 had never been passed. The American Taxpayer Relief Act of 2012 struck the sunset provisions of EGTRRA and the 2010 Tax Relief Act, thus making the changes enacted by those laws permanent. The 2012 Taxpayer Relief Act also raised the maximum gift tax rate to 40%. Although the gift tax rate schedule for 2013 and beyond (Code Sec. 2502 by reference to Code Sec. 2001) shows the 40% rate being imposed on gifts in excess of $1,000,000, the applicable exclusion amount effectively precludes taxation of any transfers in an amount below $5,450,000 in 2016, (it was $5,430,000 in 2015, $5,340,000 in 2014, and $5,250,000 in 2013).

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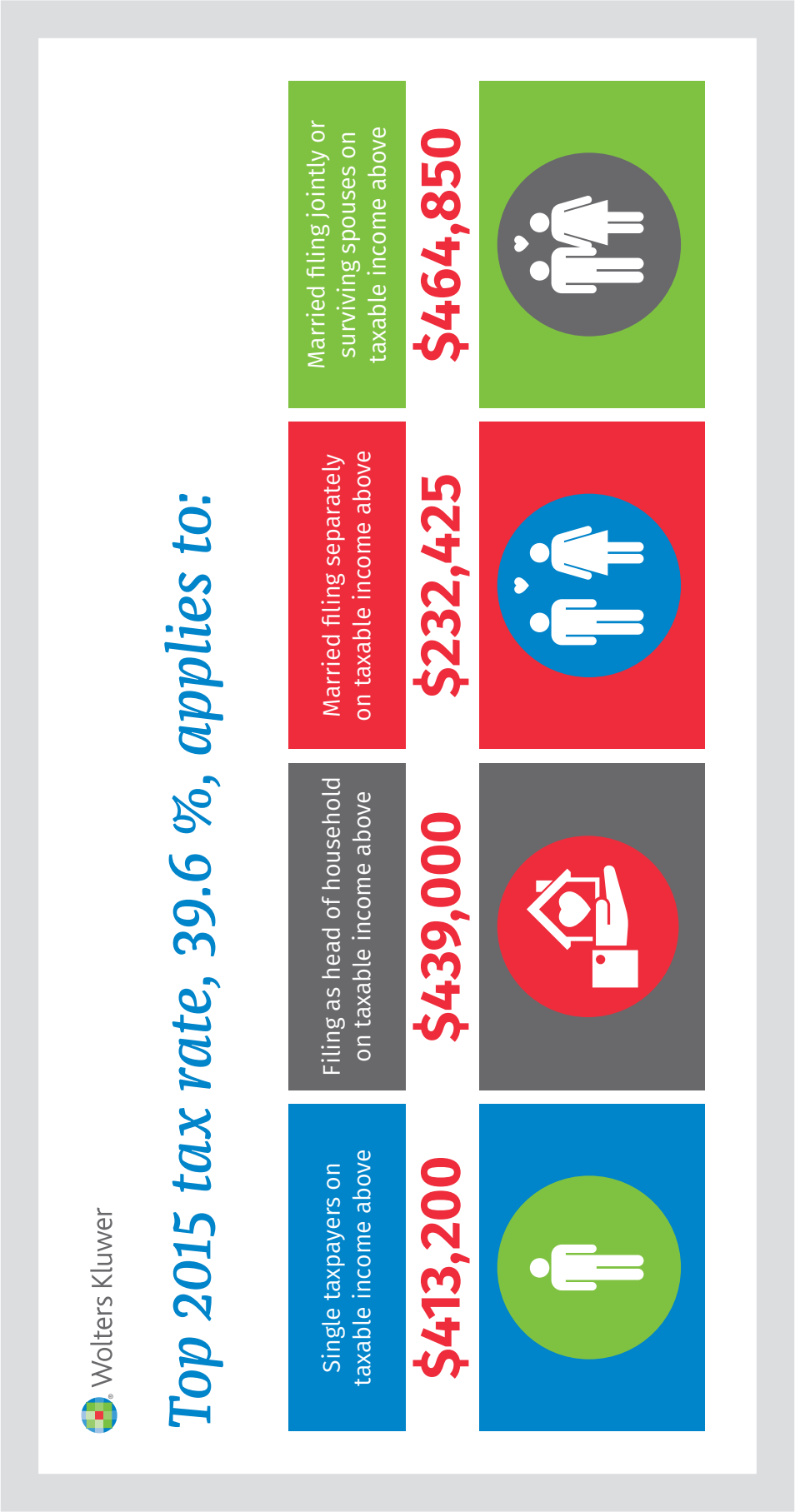
Standard deductions for 2015 tax filings are:

Single or married and filing separately	Head of Household	Married and filing jointly and qualifying widow or widower
$6,300	**$9,250**	**$12,600**
OR	OR	OR
(up $100 from 2014)	*(up $150 from 2014)*	*(up $200 from 2014)*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Top 2015 tax rate, 39.6 %, applies to:
Single taxpayers on taxable income above
$413,200
Filing as head of household on taxable income above
$439,000
Married filing separately on taxable income above
$232,425
Married filing jointly or surviving spouses on taxable income above
$464,850

Available Now

2016 Tax Guide for Journalists
https://www.cchgroup.com/media/wk/taa/pdfs/news-and-insights/wbot/tax-guide-for-journalists-2016.pdf

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Helpful Resources for Reporters

The following are recommended complimentary resources from Wolters Kluwer Tax & Accounting that you may find helpful.

- **Top Federal Tax Issues for 2016**
  http://www.cchgroup.com/media/wk/taa/pdfs/training-and-support/testing-center/Top_Federal_Tax_Issues_2016.pdf
- **TAX BRIEFING: 2015 Tax Year in Review**
  https://www.cchgroup.com/media/wk/taa/pdfs/news-and-insights/federal-tax-legislation/2015-tax-year-in-review.pdf
- **TAX BRIEFING: Protecting Americans From Tax Hikes Act of 2015**
  https://www.cchgroup.com/media/wk/taa/pdfs/news-and-insights/federal-tax-legislation/protecting-americans-from-tax-hikes-act-2015.pdf
- **TAX BRIEFING: Bipartisan Budget Act of 2015**
  https://www.cchgroup.com/media/wk/taa/pdfs/news-and-insights/federal-tax-legislation/bipartisan-budget-agreement-of-2015.pdf
- **TAX BRIEFING: Identity Theft Update**
  https://www.cchgroup.com/media/wk/taa/pdfs/news-and-insights/federal-tax-legislation/2015-identity-theft-update.pdf
- **TAX BRIEFING: ACA Small Business Tax and Compliance**
  https://www.cchgroup.com/media/wk/taa/pdfs/news-and-insights/federal-tax-legislation/aca-small-business-tax-compliance.pdf
- **TAX BRIEFING: ACA Large Employer Compliance and Reporting**
  https://www.cchgroup.com/media/wk/taa/pdfs/news-and-insights/federal-tax-legislation/2015-aca-large-employer.pdf
- **TAX BRIEFING: Surface Transportation Act of 2015: Tax Provisions**
  https://www.cchgroup.com/media/wk/taa/pdfs/news-and-insights/federal-tax-legislation/2015-surface-transportation-act.pdf
- **TAX BRIEFING: Trade Legislation Tax Provisions**
  https://www.cchgroup.com/media/wk/taa/pdfs/news-and-insights/federal-tax-legislation/2015-trade-legislation-tax-provisions.pdf
- **TAX BRIEFING: Supreme Court Decisions Impact ACA, Same-sex Marriage**
  https://www.cchgroup.com/media/wk/taa/pdfs/news-and-insights/federal-tax-legislation/2015-aca-same-sex-marriage.pdf

Throughout the year, you can find informative Tax Briefings from Wolters Kluwer available online at **CCHGroup.com/Legislation/Briefings**.

Make sure to visit the 2016 Whole Ball of Tax site (**CCHGroup.com/WBOT2016**) often as new resources and other updates will be posted throughout the tax season.

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Please visit **CCHGroup.com/Press** for more information.

7/16 2016-1338

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When you have to be right