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Year-End Planning Guide for Individuals

- Ethan Chaffee

As 2015 comes to a close, it's time to gather all of your tax information in order to meet the deadlines that seem to approach so quickly.

Taxpayers who review their situation before year-end tend to have more tax reduction strategies at their disposal than those who do not.

To help with your 2015 year-end tax planning, here is a planning guide with information we feel will be most relevant.

Income Deferral/Exclusion

- Receive bonuses earned for 2015 in 2016
- Minimize retirement distributions
- Postpone the redemption of U.S. Savings Bonds
- Delay Roth conversions to 2016
- Offset tax losses against current gains
- Sell appreciated assets in 2016
- Make tax-free gifts of $14,000 per recipient ($28,000 for married joint filers)
- Complete installment sales to defer gain
- Execute like-kind exchange transactions
- Defer billings and collections
- Declare any special dividends in 2016
- Defer corporate liquidation distributions to 2016

Deduction/Credit Acceleration

- Bunch itemized deductions into 2015/ standard deductions into 2016
- Accelerate bill payments to 2015
- Pay last state estimated tax installment in 2015 instead of 2016
- Minimize the effect of AGI limitations on deductions/credits
- Make an IRA contribution before April 15, 2016 of up to $5,500 per individual (with catch-up contributions of an additional $1,000 available to individuals age 50 and older)
- Make a full year's worth of deductible health savings account contributions in 2015
- Maximize net investment interest deductions
- Match passive activity income and losses

There are some tax benefits that have expired, and we will not know if these will be extended until the end of 2015 or the beginning of 2016, but these tax benefits may not be available to you for 2015. Here are some that we think are most relevant.

- Deduction for state and local sales taxes
- Above-the-line deduction for qualified higher education expenses
- Tax-free IRA distributions for charitable purposes by those age 70 ½ or older
- Credit for residential energy property
- Deduction of up to $250 for certain expenses of elementary and secondary school teachers

Lastly, please be aware of changes in inflation-adjusted taxes and phase-out amounts for income tax, net investment income tax (NIIT), itemized deduction phase-out, and personal exemptions. These changes can be found on the IRS website, www.irs.gov.

If you have any questions regarding what we have discussed, please contact us as soon as possible.

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Inside this Edition:

Sciarabba Walker is a proud sponsor of the United Way of Tompkins County and matches each dollar raised by our employees.

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Tax Identity Theft—What to Look for and How to Prevent It

- Taylor Moore

Tax-related identity theft is when someone uses your stolen Social Security number to file a tax return and claim a fraudulent refund. This rapidly-growing problem is being addressed the best that it can.

The IRS combats tax-related identity theft with a strategy of prevention, detection and victim assistance. The IRS is making progress against this crime and it remains one of the agency's highest priorities. So far this year, new fraud filters have stopped about 3 million suspicious returns for review – an increase of more than 700,000 from the year before.

How do you know if you're a victim?

- You receive correspondence from a taxing authority (IRS or state) asking for additional information about a return they received or if you filed the return they received.
  If you receive this type of correspondence, please forward a copy to your accountant or tax preparer so they are aware of it and can discuss who will respond. Each letter can be slightly different, so it's best to seek advice about your response.
- When you try to electronically file a return and it's rejected because another return using their Social Security number was already filed.
  If this occurs, your accountant or tax preparer will let you know and ask how you would like to proceed. This type of identity theft has typically affected federal returns and it might be possible to electronically file your state returns.
- If your federal return has been rejected for identity theft you will have to paper file your return and include *Form 14039 – Identity Theft Affidavit*. This form alerts the IRS that the return previously filed is fraudulent and that the return being filed now is your actual return.
  For New York State residents: New York is requesting that federal tax identity theft victims also file their *Form DTF-275 – Identity Theft Declaration.*

What to watch for and how to prevent it

- Protect your records! Do not carry your Social Security card or other documents that have your SSN on them. Only provide your SSN if it's necessary and you know the person requesting it. Protect your personal information at home and change your internet passwords often. It is also recommended that you protect your computers with anti-spam and anti-virus software.
- Don't fall for scams. The IRS will not call or email you to demand payment. Beware of threatening phone calls from someone claiming to be from the IRS. If you have no reason to believe you owe taxes, report the incident to the Treasury Inspector General for Tax Administration (TIGTA) at 1-800-366-4484.
- Be mindful of data breaches and the kind of information that could have been taken during a breach. Keep in mind that not all data breaches result in identity theft. If your SSN was compromised and you think you may be a victim of tax-related identity theft, file a police report. You can also file a report with the Federal Trade Commission using the FTC Complaint Assistant.

See Tax Identity Theft on Page 3

Health Care Reform—What You Need to Know

- Denise Coyle,CPA

Health care reform has brought many changes for 2015. We want to make sure you are aware of the changes that may affect you or your business, so that you are compliant with IRS standards.

Individuals

Individuals were first required to have health insurance for themselves and all dependents, or otherwise owe a Shared Responsibility Payment, in 2014. For 2015, individuals will be receiving new forms designed to report certain health care insurance coverage information. These forms will be sent to employees and the IRS to report offers of health coverage and enrollment in health coverage.

Individual circumstances will dictate whether an individual will receive Form 1095-B, 1095-C, both, or multiple copies of each. These forms should be provided to your tax preparer.

Individuals who purchased health insurance through the Health Insurance Marketplace will receive Form 1095-A from the Marketplace. This form reports the monthly cost of health insurance purchased through the Marketplace and any advance Premium Tax Credits received.

This form should also be provided to your tax preparer. It will be used to prove that you had health insurance coverage and to claim or reconcile any Premium Tax Credits.

Those without minimum essential health coverage will be assessed the shared responsibility payment when they file their tax return, unless they qualify for an exemption. The amount of this payment is significantly higher in 2015 and will increase again in 2016. Please contact us for additional information.

Employers

2015 marks a year of several changes related to the Affordable Care Act for employers. This is a brief summary of the changes. If you would like more information, please contact us.

Employer Shared Responsibility Provisions

Beginning in 2015, the Employer Shared Responsibility Provisions are in effect. This impacts employers with 50 or more full-time equivalent employees, which are considered Applicable Large Employers (ALEs).

Employers with common ownership must aggregate the employees for all commonly owned entities to determine whether they are an ALE. ALEs must provide affordable minimum essential coverage to their full-time employees or face the Shared Responsibility Payment. They will also be responsible for filing information returns with their employees and the IRS (Form 1095-C and 1094-C).

Self-insured Health Plans

Employers who are not ALEs, but have self-insured health plans will also need to provide forms to their employees and the IRS (Form 1095-B and 1094-B).

Employer Payment Plans

Another major change is that employers are no longer allowed to reimburse an employee for a healthcare premium they are incurring on their own. These are also known as "Employer Payment Plans." This does not apply to plans with only one participating employee.

A. Transition relief was provided through 6/30/15. Any payments made to employees for health insurance premiums after 6/30/15 will be in violation of the Affordable Care Act and will result in a $100 per day per employee penalty.

B. S Corporation Shareholders are exempt from this provision through at least 12/31/15. No further penalty relief information is available at this time.

If you believe you may be affected by any of these provisions, please feel free to call us at 607-272-5550 and ask to speak with Denise Coyle or the particular professional who typically helps you. You may also see http://swcllp.com (Resources, Client Documents) or www.IRS.gov for help.

Is Your Firm Subject to NY State Tax?

- Svetlana A. Svetlichnaya CPA

There have been some recent changes to the New York State nexus rules, which determine whether a corporation is taxable by New York State.

Effective for taxable years beginning on or after Jan. 1, 2015, New York State will be applying a statutory nexus threshold in determining whether corporations are subject to taxation.

First, if a corporation has $1 million or more of its receipts derived from New York State sources, that corporation is subject to taxation. The threshold drops to $10,000 if receipts of a related corporation equals or exceeds $1 million. New York receipts will be determined under the market-based sourcing rules described here. The new law also repeals the exception for inventory.

Previously, if an entity only had inventory in New York State, there was no nexus created.

Market-based sourcing rules have not changed with respect to the sale of tangible property and data/information delivered online, which have been sourced to the location or access point of the customer. However, services will now be sourced to the location where the services were delivered, rather than where the services were performed. If the delivery or access point is unknown, the customer's billing address/zip code can be used. The apportionment factor from the prior year can be used as a last resort.

A corporate partner in a partnership that is doing business in New York is also considered to be doing business in New York. The new economic nexus rules also apply to S corporations. If the S corporation makes an election to be treated as a New York S corporation, the New York S corporation is subject only to the fixed dollar minimum tax. If the S corporation does not make that election, the corporation is subject to tax as a New York C corporation.

2015 Tax Updates for Estates, Trusts

- Sarah Acker, CPA

Estates

For 2015 the federal estate exemption amount is $5,430,000. The maximum federal unified estate and gift tax rate is 40 percent. The annual gift tax exclusion allows taxpayers to give up to $14,000 to any individual ($28,000 for married taxpayers who "split" gifts), gift-tax free.

New York State's exclusion increased in 2015. For anyone who died on or after April 1, 2015, but before April 1, 2016, the basic exclusion is $3,125,000. That amount will increase every year by $1,062,500 until Jan. 1, 2019, when the New York basic exclusion will equal the federal exemption amount and then be adjusted for inflation.

If the New York estate exceeds 105% of the exemption amount, the entire value of the estate will be taxed, not just the portion over the exemption amount. Since the federal limit is much higher, it is important to start planning now for the state level to avoid being taxed on the entire value of the estate.

All elections made or waived on the federal estate tax return will be binding on the New York State estate tax return as well. If a federal return is not required, a Qualified Terminable Interest Property (QTIP) election can be made for New York State purposes by attaching a pro forma federal return. Once the QTIP election is made, however, it is irrevocable.

For federal purposes, an estate return that is not required to be filed can be filed to allow for an election of portability. Portability allows the spouse of a decedent to use the decedent's unused exclusion amount towards his or her own estate tax return.

New York State does not have portability, which may affect the estate's choice of choosing portability over other elections for federal purposes. Practitioners should consider completing the state return prior to the federal return.

All gifts made by a New York decedent within three years of their death will be added back to the estate. This eliminates the benefit of death-bed giving. The "add-back" rule does not apply to real or tangible personal property located outside of New York State.

Trusts

Effective for income earned after January 1, 2014, and paid after June 1, 2014, income tax is imposed on the New York beneficiary of a previously exempt resident trust on any accumulated income that is distributed to the beneficiary. Income accumulated before the beneficiary became a New York resident is excluded. If a trust is set up as an incomplete gift to an intentionally defective grantor trust, the trust's income is taxable to the New York grantor. Special credits are available to ensure that there is no double taxation.

Depreciation, Safe Harbor Rules for '15

- Megan Palladino, CPA

Depreciation

The two most common expense incentives used by small businesses for tax purposes are bonus depreciation and Code Section 179 expensing. The 50% bonus depreciation, as well as the enhanced Section 179 limit of $500,000, expired in 2014.

However, both incentives are expected to be renewed by Congress for 2015. If not renewed, the limit on Section 179 expensing will be just $25,000 for 2015 until an annual spending cap of $200,000 on qualified property is reached. (If the property cap is exceeded, the Section 179 deduction must be reduced dollar for dollar over the limit.)

Property qualifying under Section 179 is generally defined as new or used tangible personal property that is purchased for use in a trade or business. Property qualifying under bonus depreciation includes new property only, with a depreciable life of 20 years or less under the Modified Accelerated Cost Recovery System (MACRS).

De Minimis Safe Harbor

The De Minimis Safe Harbor is a provision that was issued with the final "repair regulations" in 2015. The election allows the taxpayer to expense amounts paid or incurred for the acquisition of tangible property, for the production of tangible property, or for the purchase of materials or supplies if:

- The per-item or invoice amount is $5,000 and a written policy of doing so is reflected in the taxpayer's financial statements as of the beginning of the year
- OR the per-item or invoice amount is $500 or less for a taxpayer without applicable financial statements.

If the election is made, the safe harbor must be applied consistently to all applicable purchases.

Contact our office if you need assistance factoring these incentives into your year-end tax planning.

Tax Identity Theft

Continued from Page 1

- Report suspicious activity. There is a chart on IRS.gov called "How to Report Suspected Tax Fraud Activity" that you can follow.

You're a victim - what's next?

First you should communicate with your accountant and tax preparer to make sure your returns and other required forms are correctly filed.

You should monitor your credit. Contact at least one of the three credit bureaus. You can put a freeze on your account, or just monitor your account for suspicious activity.

The IRS offers special Identity Protection PIN (IP PIN) program which victims can apply to participate in. These unique six-digit PINs are mailed to the taxpayer each year for three years and used to verify the taxpayer's identity when electronically filing their return.

If you elect to participate in this program, you will not be able to electronically file your tax return without this PIN.

If you receive any correspondence from a taxing authority, especially if you do not understand what it says, consult your accountant or tax preparer.