



It is hard to believe how fast it has gone, but we are coming upon another year's end! We look forward to seeing you very soon for another tax season. There is still plenty of tax uncertainty surrounding 2015 and 2016, making it very important to be aware of tax planning strategies that might impact your overall situation. The purpose of this letter is to highlight some of the current changes and provide you with some year-end planning points to help plan for 2015 and 2016.

- **Tax Rates** – Planning for your marginal tax rate is a major key to good tax planning. For singles, the cut-off from the 15% bracket to the 25% bracket is \$37,450 of taxable income. For Married Filers, the cut-off is \$74,900 - increased over last year for inflation. For income over \$413,200 for singles and \$464,850 for marrieds, there is still a highest rate bracket of 39.6% (yes, 39.6%.....).
- **Affordable Care Act – Health Insurance** – **Please make sure that you are fulfilling your obligations under the recent healthcare law changes. All individuals are required to obtain healthcare coverage (unless: specifically exempted) for 2014 and forward. If you do not have health insurance coverage or a specific approved exemption, you will be subject to penalties upon the filing of your 2015 tax return (the higher of \$325 per person or 2% of your income). Note these penalties get more significant in 2016. Even if you are exempted, you must still obtain certification from the government for the exemption you are claiming. If you obtain insurance through the exchange, please be very careful in estimating your income properly if you are receiving a subsidy for the insurance, an under-estimation of income can cause subsidy repayment obligations when you file your tax return.**
- **The Never-Ending Story** –As has become the usual, at press time of this letter, unless Congress acts, certain items may have expired: Sales Tax Deduction, Teacher School Supplies Deduction, Tuition Expense Deduction, Tax-Free IRA Distributions to Charity, 50% Bonus Depreciation and \$500K Section 179 Expensing Election for businesses. An extension of these items back to January 1, 2015, does appear likely and is currently in consideration by Congress. We are hopeful that laws will be passed shortly to extend these items.
- **IRS Identity Theft** – Identity theft, fraud and scams are at an all-time high according to the IRS. Should you receive notice from the IRS or from someone representing they are from the IRS please DO NOT provide any information to them until you have confirmed they are legitimate. Keep in mind that the IRS does NOT initiate contact via email or telephone. Please protect your Social Security number. We have seen a huge increase in identity theft cases.

- **Employees vs Independent Contractors** - Please make sure you are properly categorizing your workers. The rules are extremely specific as to what requires you to treat an individual as an employee- mainly related to the “Control” that you have over the individual (hours, equipment etc.), and the IRS is continuing to very aggressively audit and assess penalties on this issue.
- **Capital Gains and Qualified Dividends** – The 15% rate on both long-term capital gains and qualified dividends remains in effect through 2015 and 2016. The same goes for the 0% rate on gains and dividends for filers in the 10% or 15% tax brackets. There is still a higher 20% capital gain rate for singles with taxable income over \$400K and marrieds over \$450k.
- **Medicare Surtaxes** –There remains a 3.8% Medicare Surtax on “Net Investment Income”. It applies to “unearned income” including: interest, dividends, capital gains, annuities, royalties, passive rental income, etc. It applies to singles with modified AGI’s over \$200,000 and marrieds with modified AGI’s over \$250,000. Tax-free interest is exempt from the tax.
- **Health Insurance Reimbursements** – Please be aware that in most cases an employer can no longer reimburse employees for health insurance premiums in a tax-free manner. In certain circumstances the IRS can impose an excise tax penalty of \$100 per day for disqualifying arrangements in which these reimbursements are taking place. Please be careful with these arrangements.
- **Conversions to Roth IRAs** – For 2015, traditional IRA’s can be converted to Roth IRAs without earnings restrictions. This can be a very beneficial strategy if you have available room in the 15% tax bracket to absorb the conversion.
- **Estate Tax** – Federal Exemption is \$5.43 million per person for 2015. The Maryland estate exemption is now \$1.5 million per person for 2015 (\$2 million for 2016) and will increase annually to match the federal amount by 2019.
- **Gift Tax** - The annual gift exclusion is \$14,000 per person per year. All gifts should be well documented. Gift Tax returns may be required in certain circumstances – please check with us on proper compliance.

#### **SELECTED BUSINESS ITEMS FOR 2015**

- **Asset Purchases - Bonus Depreciation** – **If Congress passes the extension bill**, for 2015, you may be able to expense 50% of the entire cost of certain “new” assets by immediately claiming bonus depreciation. This applies to new assets with useful lives of twenty years or less including machinery, land improvements and farm buildings. Please note that Maryland has decoupled from this law and utilizes and depreciates assets differently. West Virginia follows federal law.
- **Section 179 Expensing Deduction** – **If Congress passes the extension bill**, for 2015, you may be able to expense up to \$500,000 of qualifying property placed in service – new or used. The amount phases out as you exceed \$2,000,000 in total assets placed in service during the year. Buyers of certain SUV’s weighing between 6,000-14,000 lbs can deduct only up to \$25,000 through this election. **Please note that to qualify for a 2015 election, the asset must be placed in service (meaning you must physically have it and use it) by December 31.**

**PLANNING IDEAS:** You may be able to reduce your taxes by controlling the payment of deductible expenses and the timing of the collection of income. Several strategies to consider may include:

- Pay all state and local income taxes (4<sup>th</sup> Qtr Estimated Pymts) and real estate taxes prior to the end of the year (by 12/31/15). Postmark validation required.
- Maximize your contributions to employer-sponsored retirement plans and IRA's – this one is so important and can be so easy – saving money is the key.
- **Charitable Donations.** Make year-end donations to qualified charitable organizations. Use your credit card if you wish, or mail your check as late as December 31, 2015. Consider donating appreciated stock to a charity in order to shelter a potential capital gain. Consider cleaning out the closets and donating clothing and household goods to charity by year-end.
- **Medical Expenses** – Consider getting and paying for elective procedures in 2015 if you are close to the 10% of AGI threshold. – track medical miles.
- **Section 529** – College Savings Plan Contributions must be made by 12/31.
- **Please contact us to see if you have a capital-loss carry-forward from 2014 and make your broker aware of it before year-end for utilization.**
- **Keep good mileage logs.** The standard mileage rate for business is 57.5 cents per mile. Please provide us with copies of your mileage logs for our records as the IRS is requesting these on a frequent basis.
- Review your paycheck for proper withholdings – with so many changes in tax law taking place, you may need to adjust your tax withholdings for 2016 – please contact us to discuss these changes so you don't come up short.

**IMPORTANT FIGURES FOR 2015/2016**

*SOCIAL SECURITY LIMIT FOR WAGE EARNERS FOR 2016: \$118,500*

*HEALTH SAVINGS ACCOUNT LIMITS -2015- \$3,350 SINGLE \$6,650 FAMILY*

**RETIREMENT PLAN CONTRIBUTION LIMITS\*:**

	<u>YEAR 2015</u>	<u>YEAR 2016</u>
<i>IRA(REG/ROTH)</i>	<i>\$5,500</i>	<i>\$5,500 (at press time)</i>
<i>SIMPLE IRA</i>	<i>\$12,500</i>	<i>\$12,500</i>
<i>401K/403B/SEP</i>	<i>\$18,000</i>	<i>\$18,000</i>

*\*NOTE: IF YOU ARE OVER AGE 50, YOU ARE ELIGIBLE TO CONTRIBUTE ADDITIONAL CATCH-UP AMOUNTS DEPENDENT ON THE TYPE OF PLAN– PLEASE CALL FOR DETAILS.*

**Please note that we will have tax organizers here by December 15<sup>th</sup> – we will mail them out after January 1.**

**Please stop in to meet our staff of Erin Dibacco, Mindy Gangler, Cinda Savage, Kasondra Margroff, Lori Frantz and Meghan Kelly along with Brian and Shane – we are blessed to have such a great group.**

If you have any questions, please contact our office. Watch our website [www.boalandassociates.com](http://www.boalandassociates.com) for updated news related to the changing tax laws.

Yours very truly,  
All of us at Boal and Associates





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