Strauss Tax Service
Financial and Tax Consultant

624 Sixty-second Street
Downers Grove, IL 60516
(630) 964-4018 • Fax (630) 241-4191
E-mail: jstrauss@theramp.net

THE STRAUSS REPORT

Fall 2015

FALL 2015: Don't Count on Congress...or the IRS...

Given the upcoming resignation by John Boehner as Speaker of the House and the political turmoil for an election that is over a year away, the probability of any major tax reform is close to zero. In addition, the Tax Extender Bill (which passed in late December 2014 - retroactive for the entire year - and immediately expired for 2015) is probably the only tax bill we could see for this year - and then again, not until way after the upcoming election. The IRS, which is working to combat the increasing problem of identity theft and collections, as well as enforcing the tax provisions of OBAMA Care, has a budget for 2015 which is $346 million less than the year before. This means way less customer service (the number of calls that the IRS actually answered in 2015 declined 25% from 2014), and way longer wait times for telephone assistance for you and for tax professionals. (I can be on hold 1-2 hours on my professionals line to speak to a representative on your behalf). However, this does not mean you should wait to do your end of year tax review and tax planning. With our increasingly complex lives (job changes, death, birth, marriage, divorce, moving and investment changes - as well as medical expenses) you could see a **major** impact on your 2015 taxes. Many taxpayers (given summer vacations, the start of the school year and just generally busy times for all of us) may not be aware of the steps they should take between now and the end of the year to lower 2015 taxes and collect tax data needed for next year's returns.

In this issue of **The Strauss Report**, we will review the tax changes in effect for 2015 as of now and suggest year end tax saving strategies (based on current law and the passing of the extender bill) to save you money. In addition, we will review several important tax issues: medical expenses, charitable contributions, cost basis for sales of capital assets as well as inheritances, what happens after a loved one passes on and as well as how we work with and for you in the case of an IRS or IL notice or audit.

So What Are we Waiting for - in the Extender bill? A Lot!

- Deduction for State and local Sales taxes - if you itemize
- Classroom teacher expense deduction ($250)
- Tuition deduction - on Page 1 of the 1040
- Tax-free distributions from IRAs donated to charities
- Energy credits
- Deductions for mortgage insurance premiums deductible as qualified interest
- Bonus Depreciation for businesses

The most important of these for many of us are the **deduction for IL Sales Taxes** on Schedule A and the benefit of **donating part or all of your Required Minimum Distribution from your IRA to Charity**. The sales tax deduction is likely to be included, since it has been with us for several years and only expired in December 2014. The IRA contribution provision also expired in December 2014. This provision is a valuable one since if you donate directly from your IRA custodian to a charity, these funds are not included in income on your 1040 (but cannot then be used as a charitable deduction). You might consider waiting until late November or early December to take your RMD and make any large contributions - we will send out a Tax Alert when a bill is passed and post the changes on our website.

For IL, with the expiration of our 5% income tax rate at the end of 2014 and a new (Republican) Governor, the new lower 3.75% tax rate is likely to be in place for 2015 and probably longer.

What Do We Know For Certain?

Tax Provisions - which began in 2013 - mostly for higher income taxpayers:

- **a.** **3.8% Medicare tax surtax** on **investment** income for MJ Adjusted Gross income over $250,000 and Single over $200,000
- **b.** **.09% Medicare tax surtax** on **Wage** income for MJ over $250,000 and Single over $200,000
- **c.** **3% phase out of itemized deductions** - begins at Adjusted Gross Income of $300,000/Married and $250,000/Single
- **d.** **Phase out of Personal exemptions** - begins at same income levels above- and can phase out all exemptions at higher income levels

Tax Provisions which could "hit" all of us:

- **Medical expense** deductions - now over 10% of AGI if under 65; stays at 7 1/2% for those older than 65 until 2017.
- Paying in to **flexible spending accounts** at your employer has been capped at $2,500 per year.
- **Limitations** (based on Adjusted Gross Income) for the Child Credit, child care credit, and all education credits.

So is there any good news? Yes.

- The tax rates for ordinary income (wages, interest, IRAs and pensions) remained the same for most of us as in prior years.
- The tax rates for qualified dividends and Long term capital gains (0% and 15%) remain the same for most of us as in prior years.
- The formula for taxable Social Security (50% and 85% taxable for "higher" incomes) did not change.
- Most of us will not pay more tax unless our incomes increase.

What's Happening with the Affordable Health Care Act?

1.. All health plans must allow young adults to remain as dependents on their parent's health plan until they turn 26, whether or not they live at home or can be declared as dependents on the parent's income tax return.

2. Cheaper drugs for people on Medicare. Seniors who reach the "donut hole" – the point when they have to start paying prescription drug expenses themselves – now get a 52.5 percent discount when buying brand-name drugs and a 21 percent discount on generic drugs covered by Medicare Part D.

3. Beginning in 2014, you must have qualifying health insurance for yourself and your dependents (or get an exemption - see: www.irs.gov/uac/ACA-Individual-Shared-Responsibility-Provision-Exemptions)- to avoid a new tax, payable when you file your 2014 1040.

4. Starting in 2014, if you got your health insurance coverage through the Health Insurance Marketplace, you may be eligible for the premium tax credit. This tax credit can help make purchasing health insurance coverage more affordable for people with moderate incomes. It can be an advance credit or taken as a refundable tax credit on a **new Form 8962** on your 1040.

SO What can I/we still do this fall?

- **Make Your Deductions Count.** Many more taxpayers are itemizing their deductions due to substantially increased **medical costs** coupled with lower adjusted gross income. Medical costs include: out of pocket insurance costs (Medicare, COBRA, long term care insurance and retiree medical withheld from your pension); deductibles; doctor and increasingly major dental bills; lab fees; all eye care costs, prescription and doctor ordered drugs; medical travel, parking and lodging; hearing aids and batteries; and nursing home fees that **qualify as medical expenses**. If you pay an in-home caregiver and have a physician's letter stating the care is medically necessary, you may deduct these costs, so long as you are paying an agency or the caregiver will receive a 1099MISC from you (so their income is reported to the IRS) and is not paid in cash. Call us now for our **new** medical expenses worksheet.

In addition, with the cap of $2,500 on pretax medical Section 125 plans at your employer, you may pay a lot more out of pocket. Your employer's insurance may also now have a much higher deductible and co-pay and you should review your out of pocket medical expenses now to see whether you might prepay big ticket items or schedule elective medical before the end of the year. **Open Enrollment Season is in the fall for most employers** – so now is a good time to review your 2014 (and possibly 2015) medical and dental costs - so you can put money away **pretax** during the upcoming enrollment period.

Finally, you should also review your company medical plan (if any) with other supplemental insurance plans. Many companies have or will stop offering group health insurance in 2015 to retirees (citing health care reform changes), replacing them with new "pre tax health insurance arrangements" that can be used to buy supplemental medical insurance. In addition, many companies have substantially increased your share of medical insurance premiums so comparing your and your spouse's plan to see which is better for your family is a good idea.

- **Check your 401K contributions and your allocations**. The maximum contribution for 2015 is $18,000 and $24,000 for those of us over 50. Many employers still have some sort of matching program so if you are not at least contributing pre–tax the amount up to the employer contribution, you are losing free money. If you are younger, strongly consider doing the Roth 401K option if it is available. For many of us our 401K will be our major source of retirement income, so if you don't save systematically and invest carefully, you may wind up working way longer than you planned, just to have enough money for daily living and increased medical expenses.

- **Review Capital gains and Stock or Mutual Fund sales**. Many of us had big year-end LTCGains from mutual funds that messed up their 2014 taxes - this is probably not going to be the case this year. However, many of us sell stocks or mutual funds and wait until tax time to determine gain or loss (or there might be a merger from a stock you hold with taxable implications). These can create problems since we need the basis as well as the selling price to determine if you made a profit. Determination of basis can be tricky since it often includes one or more purchases, splits, spin offs, reinvested dividends, date of death values and records which are incomplete. You may need year-end statements and/or prior tax returns – or we may have to do research. The broker sends a 1099B reporting the gross sale (and basis if bought after January 1, 2011 - before that it is still your responsibility) to the IRS. Sometimes, mutual fund companies or brokers provide complete information with your year-end or tax reporting statement,

We suggest that if you have sold a capital asset that we work with you to compute gain or loss now. This can assist you in tax planning - selling other assets at a loss to balance a gain or determining the tax consequences of a gain or loss.

- **Review your Charitable Contributions.**

Both cash/check and noncash contributions can be big tax savers. Fall is a good time to review your 2015 contributions and plan for year-end donations. In addition, donations of clothing and household goods and furniture to Purple Heart, Goodwill or your church are deductible. Please make sure you have receipts and a listing of donated items and their cost- for used, not new items.

JUDI STRAUSS IN PRINT, ON MEDIA

Our Website - **www.strausstax.com** continues to offer tax tips and immediate tax update alerts when new legislation is passed - as well as workshop dates. **We also have a Facebook page** and are posting updates and links to important articles on taxes and investing and retirement planning real time.

This Fall, Judi did a Trust and Estate workshop at the Downers Grove Public Library. In January 2016 Judi will be offering her "Tax Update" workshop on Thursday, January 28 at the Lisle Public Library at 7 pm.

Tax Preparation and you.. Many of us know why you use a tax professional; others do their own-both online and on paper- not just to save money but as a source of pride. This year especially, we have not only provided the expert knowledge, education and service you have come to expect. We have also:

- Worked with a client and the IRS to file over 7 years of back tax returns and substantially reduce penalties.
- Learned about a loophole in LA taxes which saved a client substantial state taxes over the IL rate.
- Worked with attorneys and investment professionals to prepare current and back trust and estate taxes and explained it all to both trustees and beneficiaries.
- Worked with a client and the IRS with an identity theft issue.
- Answered questions all year long and provided peace of mind to clients.

TAX and FINANCIAL TIDBITS...

1. **Don't forget your Required Minimum IRA Distribution (MRD) for 2015.** You should also review your IRA beneficiaries - we are finding that there can be problems after death if the beneficiary is your trust or one or more of the beneficiaries cannot be located.
2. **You - and - we are seeing many more letters from both the IRS and IL** - whether asking for penalties or checking unreported income or auditing deductions. Call or email us if you get a letter or notice and we will review, explain and tell you what to do - or what we can do.

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3. Many people are asking if their **home sale** - principal residence or vacation home is tax free. Call us for our home sale question and answer worksheet.
4. **When someone passes on**, there is a lot of tax work to do. We recommend that if you are the Executor or Trustee, we review the steps that need to be taken immediately after death and help you carefully and successfully complete the required tax filings and communication with beneficiaries, asset companies, employers and the IRS. We work with you and your attorney to answer questions, prepare required tax filings and complete paperwork so as to minimize future problems. Call for our **Estate Check-off list** or our **Questions and Answers about Estates and Trusts.**
5. Mileage rates are: 23 cents/mile for medical; 57.5 cents/mile for business and still 14 cents/mile for charity.

J Strauss