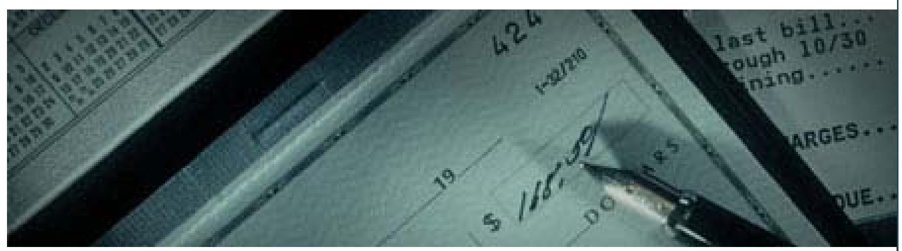
RRBB ACCOUNTANTS + ADVISORS

We deliver knowledge, ideas and exceptional results.

March 2016 www.rrbb.com



RRBB Announcements

RRBB Happenings

Our offices are buzzing again, as we gear up for another busy tax season. A couple of pieces of news for Andy Fingerhut, he was awarded a commemorative plaque at a celebration to announce his stepping down as the President of the Hillsborough, Woods Road Fire House. Andy was very active at the Fire House, overseeing the daily business of the volunteer organization from 2013 to 2015 that included an addition to the Fire House facility. Hillsborough Fire and Andy were busy recently as well with the warehouse fire that was seen from most of central NJ (and in the news) last month. Andy was also awarded the prestigious Five Star Professional Award for 2016, which was seen in NJ Monthly Magazine's January edition. This is his third straight year winning the Five Star award. Congratulations Andy on both great accomplishments!

Return to top

Key Tax Provisions in the PATH Act

New law extends and modifies tax breaks

The new Protecting Americans from Tax Hikes (PATH) Act—signed into law by President Obama on December 18, 2015—does more than merely extend various expired tax provisions as most other "tax extender" laws have done in the past. This new legislation also makes several key tax breaks permanent, along with certain modifications and other significant changes. Here's an overview of the key provisions in the PATH Act for individuals and businesses.

Individual Tax Provisions

Generally, these provisions expired after 2014, but they have been retroactively reinstated and, in some cases, made permanent.

Child tax credit: Parents are entitled to a child tax credit of up to $1,000 per child, subject to a phaseout, plus an additional refundable credit equal to 15% of earned income above $3,000. The $3,000 threshold was scheduled to revert to a maximum of $10,000 after 2017. However, the new law restores the lower threshold for the refundable credit and makes it permanent.

American Opportunity Tax Credit: Under current law, parents may claim the American Opportunity Tax Credit (AOTC), formerly the Hope Scholarship credit, for up to $2,500 of qualified higher education expenses for the year. But the credit is phased out for high-income taxpayers, based on modified adjusted gross income (MAGI). Previously, the maximum credit was scheduled to drop to $1,800 in 2017, with even lower MAGI thresholds. The new law permanently retains the enhanced AOTC.

Tuition deduction: In lieu of a higher education credit, parents were previously able to deduct tuition and fees paid to a college, for a maximum deduction of $4,000. This deduction was also phased out based on MAGI. The deduction is retroactively extended from January 1, 2015, through December 31, 2016.

> **_Three ACA Provisions Put on Hold_**
>
> The PATH Act includes three significant changes affecting provisions in the Affordable Care Act (ACA).
>
> 1. The tax on high-cost Cadillac health insurance plans is delayed for two years, from 2018 to 2020.
> 2. The 2.3% excise tax paid by manufacturers of medical devices is halted for 2016 and 2017.
> 3. There's a moratorium for one year—until 2017—on the ACA's health insurance provider fee.

Conservation donations: Real estate owners who donate land for conservation purposes were previously able to offset up to 50% of adjusted gross income (AGI) per year (100% for farmers and ranchers), as opposed to the usual 30% limit, while carrying forward any excess for up to 15 years instead of the usual five years. The new law retroactively revises these tax breaks to January 1, 2015, and makes them permanent.

IRA contributions to charity: Prior to 2015, an individual age 70½ or older could directly contribute up to $100,000 from an IRA to a qualified charity without paying any tax on the distribution. This tax break for charitable donations is approved retroactive to January 1, 2015, and is now permanent.

State and local sales taxes: In the past, a taxpayer could elect to deduct state and local sales taxes in lieu of deducting state and local income taxes. This optional deduction, which is especially valuable to residents of states with no state income tax or low income tax rates, was revived retroactive to January 1, 2015, and is now permanent.

Mortgage tax breaks: Prior to 2015, taxpayers could benefit from a tax exclusion for mortgage loan forgiveness on debts of up to $2 million on a principal residence. Another provision permitted deductions for mortgage insurance premiums, subject to a phaseout starting at an AGI of $100,000. Both mortgage tax breaks are retroactively extended from January 1, 2015, through December 31, 2016.

Residential energy credits: Under the latest version of the residential energy credit, you could have claimed a lifetime $500 credit for 10% of qualified energy-saving expenses. The residential energy credit is retroactively extended from January 1, 2015, through December 31, 2016.

Teacher classroom supply expenses: Teachers and certain other educators could previously take an above-the-line deduction for up to $250 of their out-of-pocket classroom expenses. This deduction, which has been retroactively reinstated to January 1, 2015, and is now permanent, will be indexed for inflation in future years.

Business Tax Provisions

As with individual tax provisions, certain business provisions that expired after 2014 have been retroactively extended and, in some cases, made permanent.

Section 179 allowance: The Section 179 deduction, which had eventually reached a maximum level of $500,000 with a $2 million phaseout threshold, was scheduled to plummet to $25,000 with just a $200,000 phaseout threshold for 2015. The new law restores the higher figures and makes them permanent in addition to providing for future indexing.

Bonus depreciation: Previously, a business could claim 50% "bonus depreciation" for certain qualified assets placed in service during the year. The new law retroactively extends bonus depreciation from January 1, 2015, through December 31, 2019, as follows:

- 50% for 2015 through 2017
- 40% for 2018
- 30% for 2019

After 2019, bonus depreciation will generally expire unless it is extended again.

Fast depreciation write-offs: A special tax law provision had enabled taxpayers to use a faster-than-usual cost recovery period of 15 years for qualified leasehold, restaurant and retail improvements. The regular write-off period is 39 years. Under the new law, the faster write-offs are permanently available for 2015 and thereafter.

Research credits: The new law retroactively extends the credit to January 1, 2015, and makes it permanent with certain modifications. Effective January 1, 2016, a small business with $50 million or less in gross receipts may claim the credit against alternative minimum tax (AMT) liability and a start-up company may be able to use up to $250,000 of the credit annually to offset payroll taxes.

Qualified small-business stock: Under prior law, investors could exclude 100% of the gain from the sale of qualified small-business stock (QSBS) acquired before 2015, but the exclusion was reduced to 50% for QSBS acquired after 2014. The new law permanently reinstates the 100% exclusion for QSBS acquired on January 1, 2015, and thereafter.

Work Opportunity Tax Credit: A business could previously claim a Work Opportunity Tax Credit (WOTC) for hiring people from certain economically disadvantaged groups and military veterans. The WOTC is retroactively extended from January 1, 2015, through December 31, 2019.

Employee transportation: Currently, the tax law provides tax-free benefits for employee mass transit passes, vanpooling and parking fees. The maximum monthly benefits for mass transit passes and vanpooling (but not the monthly benefit for parking fees) had been cut almost in half, from $250 to $130. The new law equalizes these fringe benefits at $250 per month (indexed to $255 in 2016), retroactive to January 1, 2015, and makes the change permanent.

Finally, the new law includes numerous other provisions, including "moratoriums" on three health care law provisions (see "Three ACA Provisions Put on Hold" box), permanently extending a tax break for using Section 529 college savings plan funds to buy computers and codifying the Taxpayer Bill of Rights. For more information about these other items in the PATH Act and details on the provisions discussed above, contact your professional tax adviser.

Return to top

Ins and Outs of Flexible Spending Accounts

Popular fringe benefit for employees

Flexible spending accounts (FSAs) can be a low-cost addition to your company's benefits package. You can provide FSAs for your employees to cover health care expenses, dependent care expenses—or both—within certain tax law limits.

Background: An FSA is funded with pretax dollars, so there are significant tax savings for employees. Furthermore, as the employer, you don't have to pay Social Security and Medicare (FICA) taxes or federal unemployment (FUTA) tax on the amount that employees contribute to their FSAs. Those benefits may offset some or all of the cost of administering an FSA. It's a win-win situation for employers and employees.

Although the rules vary slightly between health care and dependent care FSAs, the basic premise is the same. Distributions that are made for qualified expenses—for example, to have LASIK eye surgery or to pay a day care center—aren't subject to tax. But any withdrawals made for nonqualified expenses are fully taxable.

Under the Affordable Care Act of 2010 (ACA), the maximum amount that can be annually contributed to a health care FSA is $2,500. Prior to 2013, there was no limit at all on FSAs used for health care expenses. This figure, which is now indexed for inflation, is $2,550 for 2016 (the same as it was for 2015). Conversely, the maximum amount allowed for a dependent care FSA is $5,000. Note that this figure is not indexed for inflation. With either type of FSA, the savings can be significant.

Example: One of your firm's employees earns $100,000 a year. She sets aside $4,000 a year in her FSA to pay for her children's after-school care. Assuming she uses the entire $4,000 and she is in the 28% tax bracket, the employee saves $1,120 in federal income tax (28% of $4,000), plus another $306 in FICA taxes (7.65% of $4,000), for a total of $1,426. Your firm also saves $306 on the employer's share of the FICA tax. Multiply these savings by the number of participants.

Employees must decide how much to contribute to their FSAs. Typically, this decision requires some advance planning, especially when you factor in the use-it-or-lose-it rule. Generally, if an employee doesn't withdraw the funds from the FSA before the end of the year, any remainder is forfeited. However, if your firm allows a grace period, employees may take an extra 2½ months to use the FSA funds. Therefore, the effective deadline for the 2015 tax year may be March 15, 2016.

Alternatively, an employer may allow an employee to carry over up to $500 of unused FSA funds to the next year. For instance, if an employee has $300 left over in a health care FSA from 2015, he or she can carry over the $300 to the FSA for 2016. But employers cannot permit both the grace period and the carryover—it has to be one or the other.

Return to top

Bigger Tax Rewards for Your Generosity

Special tax break for gifts of property

Facebook founder Mark Zuckerberg made news recently by promising to give away 99% of his net worth, including his Facebook shares, to charity. The arrangement takes advantage of a unique tax break for charitable gifts of appreciated property, such as stock.

Background: If you have held property long enough for it to qualify for a long-term capital gain if you had sold it—in other words, more than one year—you can deduct an amount equal to the property's fair market value (FMV). On the other hand, if the property would not qualify for long-term capital gain treatment on a sale, your deduction is limited to your basis in the property, which is often its original cost.

Therefore, this rule can change the way you give property to charity. For instance, suppose you own stock you bought for $5,000 10 months ago. The stock is currently worth $7,000. If you give the stock to charity today, you can deduct only your basis in the stock, or $5,000. However, if you wait more than two months to donate the stock, your deduction is increased to its FMV, or $7,000. In other words, you receive the tax benefit of appreciation in value when you donate property held more than one year. You are never taxed on the $2,000 appreciation in value.

However, there may be a few other potential obstacles to overcome. Significantly, if you donate property that is not used to further the charity's tax-exempt function, your deduction is limited to your basis in the property. For example, if you donate artwork to your alma mater, insist on having the school display the art in a place where students can view it and study it. As a result, you can deduct the art's FMV, assuming you owned it for more than one year. Conversely, if the school simply keeps the art in a storeroom, you get no tax benefit from the appreciation in value.

What happens if the property has depreciated in value? In that case, your deduction is limited to the FMV, regardless of how long you have held the property.

Also, be aware that certain itemized deductions are reduced for high-income taxpayers. This reduction applies to deductions for charitable gifts.

Regardless of whether property has appreciated or depreciated in value, it is recommended that you obtain an independent appraisal of the property's current worth. This is the best proof you can have if your deduction is ever challenged. The IRS requires an independent appraisal for property donations exceeding $5,000.

Return to top

Facts and Figures

Timely points of particular interest

New Passport Law—Under the Fixing America's Surface Transportation (FAST) Act, your passport may be denied, revoked or limited if you have a "seriously delinquent tax debt" exceeding $50,000. This new rule, which does not apply to taxpayers with installment agreements with the IRS and those in line for "innocent spouse" relief, went into effect on January 1, 2016.

Play at Work—Your business does not have to be all work and no play. Injecting fun into the workplace does not automatically preclude a productive day. Personnel experts say that you might schedule some recreational activities in a break room, or set up a pool table, ping-pong table or dartboard. A few minutes spent relaxing can stimulate work for hours—just set reasonable limits.

Return to top

IRS Issues Standard Mileage Rates

The IRS has announced the standard mileage rates that may be used in 2016 instead of deducting actual expenses. The new rates, which have decreased or stayed the same, are as follows:

- For business driving, the rate is 54 cents per business mile (it was 57.5 cents in 2015).
- For medical and moving expenses, the rate is 19 cents per mile (it was 23 cents in 2015).
- For charitable travel, the rate is 14 cents per mile (the same as in 2015).

Note that you can add related tolls and parking fees to these flat, IRS-approved rates.

Return to top

RRBB Accountants and Advisors

SOMERSET OFFICE
265 Davidson Avenue, Suite 210
Somerset, NJ 08873-4120
908-231-1000

MAPLEWOOD OFFICE
111 Dunnell Road
Maplewood, NJ 07040
973-763-6363

info@rrbb.com
www.rrbb.com