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# ClientAdvisor

Winter/Spring  
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## Dear Clients & Friends,

Once again Congress passed sweeping tax legislation in late December. Fortunately, some of the legislation makes permanent changes to oft-extended tax provisions. However, not all the temporary laws were made permanent. This issue discusses some of the more popular tax laws. In addition to a quick look at 2016 key tax figures are recent changes that

impact Social Security, business expenses, and our new interest rate environment. As always, should you have any questions or concerns please contact us.

*Thanks for your support.*

## PATH Act: Major Tax Law Changes

With the signing of the Protecting Americans from Tax Hikes (PATH) Act in mid-December 2015, Congress extended tax deductions and credits that had been scheduled to expire.

Here are several you can benefit from in 2015 and beyond.

■ **Child credit.** You can claim this \$1,000 tax credit for each qualifying dependent child who was under age 17 on December 31. The credit, which reduces your tax dollar-for-dollar, is partly refundable but phases out as your income rises. Previously set to expire in 2017, the credit is now permanent.

■ **Education benefits.** The expired above-the-line deduction for higher education tuition and related expenses was retroactively extended and is now available for both 2015 and 2016. In addition, the American Opportunity Tax Credit, an education credit of up to \$2,500, is now permanent. Both the deduction and the credit are subject to phase-outs as your income rises.

■ **State and local sales tax deduction.** If you itemize, you can choose to deduct either the amounts you paid during the year for state and local income

## Everyday Advice

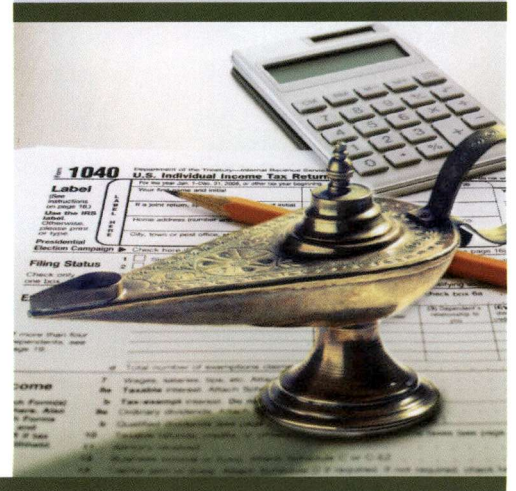
*"Put not your trust in money, but put your money in trust."*

— Oliver Wendell Holmes, Sr.

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# 2016 Taxes (a quick first look)



## Personal Exemption

Item	2016	2015	Change
Personal exemption	\$4,050	\$4,000	+\$50
<b>Exemption phase-out</b>	Reduce exemptions by 2% for each \$2,500 (or any part there-of & \$1,250 MFS) over the phase-out threshold amounts listed below.		
Single	259,400	258,250	+\$1,150
Married joint/widow	285,350	284,050	+\$1,300
Head of Household	311,300	309,900	+\$1,400
Married filing separate	155,650	154,950	+\$700

## Retirement Plan Contributions

Item	2016	2015	Change
Traditional IRA	\$5,500	\$5,500	—
(age 50+ catchup)	Add \$1,000	Add \$1,000	—
Roth IRA	\$5,500	\$5,500	—
(age 50+ catchup)	Add \$1,000	Add \$1,000	—
401(k), 403(b), 457 & SARSEP	18,000	18,000	—
(age 50+ catchup)	Add \$6,000	Add \$6,000	—
SIMPLE IRA	\$12,500	\$12,500	—
(age 50+ catchup)	Add \$3,000	Add \$3,000	—

## Standard Deductions

Item	2016	2015	Change
Single	\$6,300	\$6,300	—
Married joint/widow	12,600	12,600	—
Head of Household	9,300	9,250	+\$50
Married filing separate	6,300	6,300	—
Elderly/Blind: Married	Add \$1,250	Add \$1,250	—
Elderly/Blind: Unmarried	Add \$1,550	Add \$1,550	—
<b>Itemized Deduction phase-out</b>	Itemized deductions can be reduced by 3% of the amount AGI exceeds the applicable thresholds listed below. Maximum deduction is 80% of itemized deductions.		
Single	259,400	258,250	+\$1,150
Head of household	285,350	284,050	+\$1,400
Married joint/widow	311,300	309,900	+\$1,300
Married filing separate	155,650	154,950	+\$700

## Key Credits

Item	2016	2015	Change
Child Tax Credit	\$1,000	\$1,000	—
Adoption Credit	\$13,460	\$13,400	+\$60
Lifetime Learning Credit	\$2,000	\$2,000	—
American Opportunity Credit	\$2,500	\$2,500	—
Savers Credit	\$1,000	\$1,000	—

## Mileage Rates

Item	2016	2015	Change
Business	54.0¢/mile	57.5¢/mile	-3.5¢
Medical/moving	19.0¢/mile	23.0¢/mile	-4.0¢
Charitable	14.0¢/mile	14.0¢/mile	—

## Section 179

Item	2016*	2015	Change
Annual Expense	\$500,000	\$500,000	—
Property limit	\$2 million	\$2 million	—

## Long Term Capital Gains

Tax Rate if in...	2016	2015	Change
10% - 15% income tax brackets	0%	0%	—
25% - 35%* income tax brackets	15%	15%	—
39.6%* income tax bracket	23.8%*	23.8%*	—

\* 2016 to be indexed for inflation

\* Includes Net Investment Tax

## Social Security Strategies Changing



The Bipartisan Budget Act of 2015 made two changes to social security benefit strategies. "File and suspend" was a way for married couples to allow the

higher earning spouse to claim benefits at full retirement age but suspend the benefits until a later date. Under the Act, this strategy will no longer be available after April 30, 2016.

"Restricted application" applied to married couples who had reached full retirement age and who were eligible for both a spousal benefit and a personal retirement benefit. These couples could file a restricted application for spousal benefits only, then delay applying for personal retirement benefits. If you'll turn 62 after 2015, the Act eliminated the ability to file a restricted application for only spousal benefits. However, if you were already 62 or older in 2015, you can continue to use the restricted application method for spousal benefits, but only upon reaching full retirement age.

## Small Business: New Capitalization Versus Expensing Guidance



In 2013, the IRS issued regulations clarifying when tangible real and personal business property can be expensed. The regulations provided safe harbors that let you deduct certain costs you'd otherwise have to capitalize.

For example, using a de minimis safe harbor, you could elect to deduct individual capital expenditures of \$500 or less if your business did not have an "applicable financial statement." (In general, an applicable financial statement is a financial statement based on a certified audit by an accounting firm.) Effective beginning with 2016 taxable years, this safe harbor has increased to \$2,500 per invoice or item. In addition, the IRS says it will not contest similar treatment in audits of earlier years.

# Understanding the Impact of Federal Reserve Rate Hike



For almost the entire past decade, interest rates held steady at near-zero levels. Then, in mid-December 2015, the Federal Reserve raised rates by one-quarter percentage point. Market watchers and economists expect further rate increases in the coming months. How will you be affected?

Technically speaking, only the federal funds rate – the short-term rate that credit-worthy banks and credit unions use to lend each other money – was adjusted in December. Even so, any interest rate revisions can cause a ripple effect throughout the economy. Accordingly, the Federal Reserve's actions probably will exert at least a moderate influence over financial choices you may make at home and in your business in 2016 and beyond.

## Savings and debt

For example, as a consumer, you stand to gain from rising interest rates because you'll likely earn a better return on your deposits. Over the last ten years, placing your money in a certificate of deposit or passbook savings account has been hardly more profitable than stuffing it under a mattress. On the other hand, the cost of borrowing money will likely increase. As a result, mortgages, car loans, and credit cards will demand higher interest rates. That's not a big deal if you're already locked into low-interest fixed-rate loans. But if you have a variable rate loan or carry balances

on your credit cards, you may find your monthly payments climbing upward.

## Investments

On the investment front, market volatility may increase because rate increases are not completely predictable. Market sectors will likely exhibit varied responses to changes in interest rates. Those sectors that are less dependent on discretionary income may be less affected – after all, you need to buy gas, clothes, and groceries regardless of changes in interest rates.

As you adjust your financial plan, you might only need to make minor changes. Staying the course with a well-diversified retirement portfolio is still a prudent strategy. However, you may want to review your investment allocations.

## Business

Rising interest rates can also affect your business. If your company's balance sheet is loaded with variable-rate debt, rising interest rates can affect your bottom line and your plans for growth. As the cost of borrowing increases, taking out loans for new equipment or financing expansion with credit may become less desirable.

Contact our office with your questions. We'll help you decide the most beneficial response to current and potential future changes in interest rates.

# PATH Act: Major Tax Law Changes...

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taxes, or your total state and local sales taxes. This deduction has been made permanent.

- **Depreciable property.** Under code Section 179, you can expense most types of otherwise depreciable real and personal property used in your business. For 2015, the maximum amount you can expense is \$500,000 of the cost of qualifying property you placed in service during the year. The \$500,000 is reduced when the cost of the property exceeds \$2,000,000. Beginning in 2016, both will be adjusted annually for inflation.
- **Bonus depreciation.** In addition to Section 179, you can continue to benefit from the 50% bonus depreciation deduction for tangible personal property that you purchased and placed in service during 2015. Bonus depreciation was extended through 2019, though the percentage will decrease in 2018 and 2019.
- **Work opportunity credit.** Are you an employer? You may be able to claim a credit of up to 40% of first-year wages you pay to workers hired from targeted groups. The credit has been extended through 2019.

These are only a few of the tax benefits that were extended. Give us a call if you'd like more information.



*This publication provides only summary information regarding the subject matter. Please call with any questions regarding how this information may affect your situation.*

# ClientAdvisor

Practical Tax & Financial Advice

## New Tax Laws Impact 2016 and Beyond

The “extender” tax legislation passed in December made permanent many well-publicized tax deductions. But a peek under the hood reveals some lesser-known changes that could impact your taxes.

■ **Payroll penalties.** Beginning in 2017, small errors (generally \$100 or less) on information returns such as Forms W-2 and 1099 will not trigger an automatic penalty. However, the law also reduces the time you have to file certain W-2 and 1099 forms with the IRS and the Social Security Administration. Beginning with 2016 forms – the ones you’ll file in January 2017 for 2016 payments – these are due January 31 to the IRS, the same date a copy is due to employees or other payees. The new due date applies to both paper and electronically filed 2016 Forms W-2

and Forms 1099-MISC that report non-employee compensation in box 7. The due dates for other information returns are not affected.

■ **ABLE account changes.** ABLE accounts – named for the Achieving a Better Life Experience Act – are tax-beneficial savings accounts for qualified disabled individuals. The extender legislation eased the requirement that you had to open the account in the beneficiary’s state of residence. Now you are free to open an ABLE account with any state program you choose.

■ **Residential energy credit.** You can claim a 10% energy credit for qualified improvements (up to a lifetime maximum of \$500) when you improve your home with insulation, windows, and certain roofs. The credit is available for 2015 and 2016.

■ **Commercial building energy deduction.** The above-the-line deduction for energy efficiency improvements to lighting, heating, cooling, ventilation, and hot water systems in your commercial building is available for 2015 and 2016.

■ **“Cadillac” health plans.** The 40% Affordable Care Act excise tax on high-dollar “Cadillac” health plans has been postponed until 2020.

■ **Straight-line depreciation for certain qualified assets.** You can continue to benefit from the 15-year straight-line depreciation deduction for qualified leasehold, restaurant, and retail improvements.

For more information about other extended tax breaks, please contact our office.