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ClientAdvisor

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Dear Clients & Friends,

As the campaign season heats up, so should your focus on ways to reduce taxes and strengthen your financial situation. Included here for your review are ideas to decrease your tax bite and help you with your financial decision-making. There are articles discussing deductions for non-itemizers and tips for working through your tax-advantage health account options. Please also review

important breaking news from the IRS that will impact many of us.

Please feel free to call with any questions.

Thanks for your support.

Deductions for Non-itemizers

A common misconception in tax filing has been that if you use the Standard Deduction versus itemizing your deductions you have few additional benefits available to reduce your tax bill. This is often not the case.

Standard or Itemize?

Every taxpayer can take the Standard Deduction to reduce their income prior to applying exemptions. However, if your deductions are going to exceed the standard amount you may choose to itemize your deductions. The primary reason someone itemizes deductions is generally due to home ownership since mortgage interest and property

taxes are deductible and are generally high enough to justify itemizing.

Common sources of itemized deductions are: mortgage interest, property taxes, charitable giving, high medical expenses, and other miscellaneous deductions.

What is Available

So what opportunities to reduce your taxable income are available if you use the Standard Deduction? Here are some of the most common:

- IRA contributions (up to \$5,500 or \$6,500 if age 50 or over)
- Student loan interest (up to \$2,500)

Everyday Advice

"Income tax has made more liars out of people than golf."

— Will Rogers, Humorist

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Breaking News from the IRS

Some tax refunds will be delayed



The Protecting Americans from Tax Hikes Act of 2015 (PATH Act) will affect taxpayers who claim the Earned Income Tax Credit and the Additional Child Tax Credit on 2016 federal income tax returns. Under the law, the IRS is required to hold refunds on returns claiming those credits until February 15, 2017, as an identity theft deterrent. While returns will be accepted if filed earlier, the entire refund will be delayed.

“Unforeseen” equals partial exclusion

Generally, single taxpayers can exclude up to \$250,000 of gain from the sale of a home, and married taxpayers can exclude up to \$500,000, when the home is used as a primary residence for two years in a five-year period that ends on the date of sale. Tax law also provides for a partial exclusion when the time and ownership requirements are not met, if the primary reason for the sale is unforeseen circumstances. “Unforeseen” means events the taxpayer could not have reasonably anticipated before buying the home and moving in. How flexible is the definition? Recently, the IRS allowed a partial exclusion when a family living in a two-bedroom, two-bath condominium gave birth to another child and needed a larger residence before the two-year rule was met.

No exception for cash incentives

Cash and cash-equivalent incentives and rewards are taxable income to employees, no matter the amount. Is that also true of cash rewards for participating in a wellness program? The IRS says yes, for cash, cash-equivalents, and items such as gym memberships and reimbursements for the wellness program premium.

Bad Economic News Made Worse

Reacting badly to bad national economic events can turn a challenging situation into a devastating one. When troubling headline news comes your way, consider these tips before making financial moves.

Stay calm. Avoid selling a security based solely out of fear, or investing based on irrational hope. Resist the urge to leave the marketplace altogether, or to make knee-jerk changes to your business. None of these reactions are likely to help you in the long run.

Don't be an average investor. Economists have noted that even in good times average investors usually fail to benefit fully from a market upswing. The reason: not staying invested for the duration of the cycle. Average investors tend to bail out when the future looks troubling, in essence “locking in” losses. Good investing techniques can be as much about mental toughness as about financial acumen.

Be methodical. So how should you respond to a disturbing economic event? Your first instinct should be to ride it out. Stick to your long-term goals. Continue to make regular contributions to your employer-sponsored retirement plan. Methodical investing over time often provides opportunities to buy stocks cheaply in down markets.

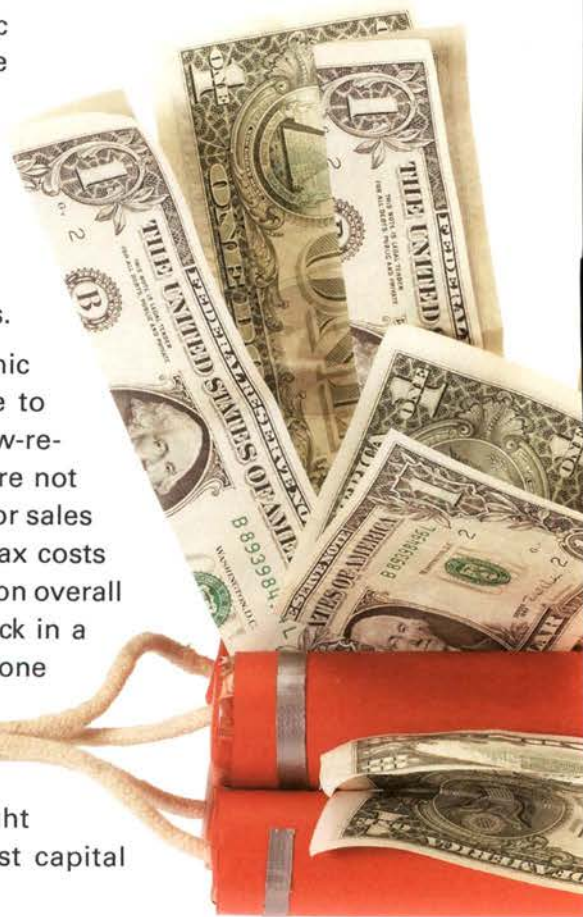
Focus on costs. Periods of economic uncertainty are also a good time to focus on costs, especially in a low-return environment. Make sure you're not overpaying for fund management or sales commissions. And be mindful of tax costs too, which can have a deadly effect on overall returns. If you decide to sell a stock in a taxable account, consider choosing one you have held for a year or more to qualify for the long-term capital gain tax rate. A market downturn might provide an opportunity to harvest capital

losses to help offset previous gains.

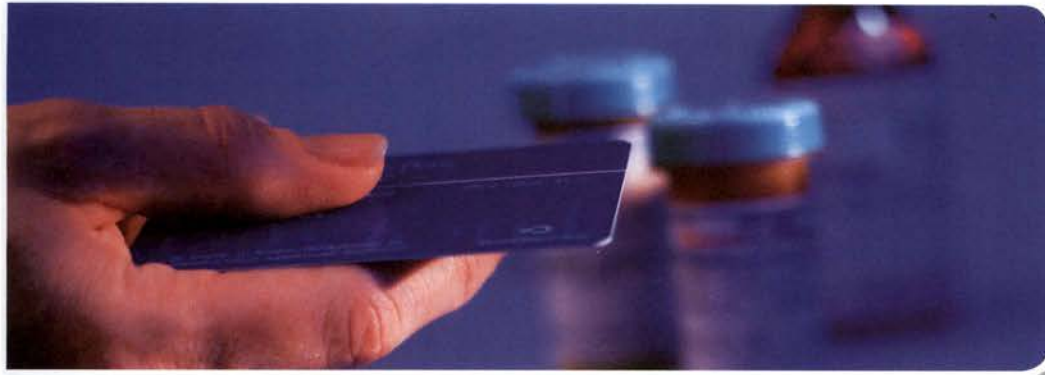
Improve your business. Look for unique opportunities to market your products or services in light of the unsettling economic conditions. Consider upgrading your business equipment, taking advantage of discounted prices, and investigating current federal tax incentives.

Revisit your tax planning. Unfavorable economic news might require a tweak to your tax planning. Lower anticipated income could justify reduced estimated tax payments or withholdings. If you're retired, consider deferring retirement account withdrawals or changing the type of investments you were planning to liquidate. A midyear review of your tax situation is always a smart move.

The bottom line: Don't make a bad economic situation worse. Contact our office for help in navigating the current financial environment.



Health Accounts – Which Should You Choose?



As you're reviewing your options for making changes to your benefits during your employer's open enrollment period, consider the differences between a health savings account (HSA) and a health care flexible spending account (FSA).

Overview

An FSA is generally established under an employer's cafeteria plan. You can set aside a portion of your salary on a pre-tax basis to pay out-of-pocket medical expenses.

An HSA is a combination of a high-deductible health plan and a savings account in which you save pre-tax dollars to pay medical expenses not covered by the insurance. "High-deductible" means you pay more of your medical costs out of pocket. Generally, premiums on high-deductible plans are lower than traditional health insurance policies. To qualify as a high-deductible plan for 2016, the minimum deductible must be \$1,300 for individual coverage and \$2,600 for family coverage.

Contributions

For 2016, you can contribute up to a maximum of \$2,550 to an FSA. Typically, you have to use the funds by the end of the year. Why? Unused amounts are forfeited under what's commonly called the "use it or lose it" rule. However, your employer can adopt one of two exceptions to the

rule and offer either a two-and-a-half-month carryover period during which you can use the remaining funds, or allow you to carry over up to \$500 into the following year.

If you are single, the 2016 HSA contribution limit is \$3,350 (\$6,750 for a family). You can add a catch-up contribution of \$1,000 if you are over age 55. You do not have to spend all the money you contribute to your HSA each year. You can leave the funds in the account and let the earnings grow.

Earnings

FSAs are typically not considered actual "accounts" because your employer holds your money until you request reimbursement for qualified expenses. HSAs are savings accounts, and the money in the account can be invested. Earnings held in the account are not included in your income.

Withdrawals

Distributions from both accounts are tax- and penalty-free as long as you use the funds for qualified medical expenses. After age 65, the funds in your HSA can be used for any purpose without penalty.

Portability

Normally, your FSA stays with your employer when you change jobs.

Deductions for Non-itemizers

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- Educator Expense Deduction (up to \$250)
- Alimony paid
- Health Savings Accounts (if you qualify)
- Moving expenses for job related moves
- Self-employed health insurance premiums
- ½ of self employment tax
- Numerous education incentives like; savings bond interest, Coverdell Accounts, American Opportunity (Hope) Credit and Lifetime Learning Credit
- Plus numerous credits including; Earned Income, Dependent Care, Child Tax, Retirement Savings, and Elderly credits

Income limitations often apply to these tax reduction opportunities, but for those who qualify, the tax savings can be significant. This list is by no means complete. What should be remembered is to rely on a complete review of your situation prior to jumping to the conclusion that tax breaks are just for someone else. That someone else might just be you, a Standard Deduction taxpayer.

Your HSA belongs to you, and you can take the account funds with you from job to job. That's true even if your employer makes contributions to your HSA for you.

Understanding the differences can help you make a decision that best fits your circumstances. Contact us for help as you consider your benefit choices.

ClientAdvisor

Practical Tax & Financial Advice

Work-Related Education Deductions

Education deductions and credits aren't only for college students. Some deductions are available for employees, employers, and the self-employed. Here's a quick review.

Employees

As an employee, your work-related education expenses may qualify for credits such as the Lifetime Learning Credit. You don't need to be pursuing a degree to qualify for the Lifetime Learning Credit, but the school needs to be an eligible educational institution. If you receive education benefits from your employer, those amounts are not eligible for the credit.

When the courses you take improve or maintain your current job skills and your employer does not reimburse the costs, you also have the option of claiming a miscellaneous itemized deduction. As a general



rule, to be considered "work-related," the education can't qualify you for a new career, trade, or business.

Employers

As an employer, you can pay for graduate and undergraduate education expenses for your employees using a written educational assistance plan. By establishing a nondiscriminatory formal plan, you can claim a federal tax deduction

for up to \$5,250 of expenses per employee annually. Your employee isn't required to include the benefit as income. Don't have a written plan? You can still pay for or reimburse expenses such as seminars that maintain or improve required skills, or expenses required under law for the employee to keep the same job.

Self-employed

When you're self-employed, you can deduct expenses for qualifying work-related education from your self-employment income. You don't have to itemize deductions to claim the expenses.

In general, a connection between your present job and the education expenses is important in order to benefit from tax breaks. Contact us for details and assistance in determining which expenses will qualify.