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What to Do if You Haven't Filed a Tax Return

Filing a past due return may not be as difficult as you think.

Taxpayers should file all tax returns that are due, regardless of whether full payment can be made with the return. Depending on an individual's circumstances, a taxpayer filing late may qualify for a payment plan. It is important, however, to know that full payment of taxes upfront saves you money.

Here's What to Do When Your Return Is Late

Monday, April 18, 2016, was the tax deadline for most taxpayers to file their 2015 tax return. If you didn't file a tax return or an extension to file but should have, take action now.

First, gather any and all information related to income and deductions for the tax years for which a return is required to be filed, then call the office.

If you're owed money, then the sooner you file, the sooner you'll get your refund. If you owe taxes, you should file and pay as soon as you can, which will stop the interest and penalties that you will owe.

If you owe money but can't pay the IRS in full, you should pay as much as you can when you file your tax return to minimize penalties and interest.

Payment Options - Ways to Make a Payment

There are several different ways to make a payment on your taxes. Payments can be made by credit card, electronic funds transfer, check, money order, cashier's check, or cash. If you pay your federal taxes using a major credit card or debit card, there is no IRS fee for credit or debit card payments, but the processing companies charge a convenience fee or flat fee.

Payment Options - For Those Who Can't Pay in Full

Taxpayers unable to pay all taxes due on a tax bill are encouraged to pay as much as possible. By paying as much as possible now, the

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amount of interest and penalties owed will be less than if you do not pay anything at all. Based on individual circumstances, a taxpayer could qualify for an extension of time to pay, an installment agreement, a temporary delay, or an offer in compromise. Please call if you have questions about any of these options.

When it comes to paying your tax bill, it is important to review all your options; the interest rate on a loan or credit card may be lower than the combination of penalties and interest imposed by the Internal Revenue Code. You should pay as much as possible before entering into an installment agreement.

For individuals, IRS Direct Pay is a fast and free way to pay directly from your checking or savings account. Taxpayers who need more time to pay can set up either a short-term payment extension or a monthly payment plan. Most people can set up a payment plan using the Online Payment Agreement tool on IRS.gov.

- A short-term extension gives a taxpayer an additional 60 to 120 days to pay. No fee is charged, but the late-payment penalty plus interest will apply. Generally, taxpayers will pay less in penalties and interest than if the debt were repaid through an installment agreement over a greater period of time.
- A monthly payment plan or installment agreement gives a taxpayer more time to pay. However, penalties and interest will continue to be charged on the unpaid portion of the debt throughout the duration of the installment agreement/payment plan.

  Taxpayers who owe $25,000 or less in combined tax, penalties and interest can apply for and receive immediate notification of approval through an IRS web-based application. Balances over $25,000 require taxpayers to complete a financial statement to determine the monthly payment amount for an installment plan.

  A user fee will also be charged if the installment agreement is approved. The fee, normally $120, is reduced to $52 if taxpayers agree to make their monthly payments electronically through electronic funds withdrawal. The fee is $43 for eligible low-and-moderate-income taxpayers.

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- Starting in 2016, individual taxpayers who do not have a bank account or credit card and need to pay their tax bill using cash, are now able to make a payment at one or more than 7,000 7-Eleven stores nationwide. Individuals wishing to take advantage of this payment option should visit the IRS.gov payments page, select the cash option in the other ways you can pay section and follow the instructions.

Penalties for Filing a Late Tax Return

If you are due a refund there is no penalty if you file a late tax return. If you owe tax, and you failed to file and pay on time, you will most likely owe interest and penalties on the tax you pay late. Here are some facts that you should know about penalties for filing a late return:

Two penalties may apply. One penalty is for filing late and one is for paying late. They can add up fast. Interest accrues on top of the penalties.

Penalty for late filing. If you file your 2015 tax return more than 60 days after the due date or extended due date, the minimum penalty is $205 or, if you owe less than $205, 100 percent of the unpaid tax. Otherwise, the penalty can be as much as five percent of your unpaid taxes each month up to a maximum of 25 percent.

Penalty for late payment. The penalty is generally 0.5 percent of your unpaid taxes per month. It can build up to as much as 25 percent of your unpaid taxes.

Combined penalty per month. If both the late filing and late payment penalties apply, the maximum amount charged for the two penalties is 5 percent per month.

Late payment penalty may not apply. If you requested an extension of time to file your income tax return by the tax due date and paid at least 90 percent of the taxes you owe, you may not face a failure-to-pay penalty. However, you must pay the remaining balance by the extended due date. You will owe interest on any taxes you pay after the April 18 due date.

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File even if you can't pay. Filing on time and paying as much as you can keeps your interest and penalties to a minimum. If you can't pay in full, getting a loan or paying by debit or credit card may be less expensive than owing the IRS. If you do owe the IRS, the sooner you pay your bill the less you will owe.

What Happens If You Don't File a Past Due Return or Contact the IRS?

It's important to understand the ramifications of not filing a past due return and the steps that the IRS will take. Taxpayers who continue to not file a required return and fail to respond to IRS requests for a return may be considered for a variety of enforcement actions.

Don't Wait!

If you haven't filed a tax return yet, call the office today to schedule an appointment as soon as possible.

Tax Planning Strategies to Use This Year

Looking to save money on your taxes this year? It's never too early to start planning ahead using these proven tax planning strategies.

Max Out Your 401(k) or Contribute to an IRA

You've heard it before, but it's worth repeating because it's one of the easiest and most cost-effective ways of saving money for your retirement.

Many employers offer plans where you can elect to defer a portion of your salary and contribute it to a tax-deferred retirement account. For most companies, these are referred to as 401(k) plans. For many other employers, such as universities, a similar plan called a 403(b) is available. Check with your employer about the availability of such a plan

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and contribute as much as possible to defer income and accumulate retirement assets.

Tip: Some employers match a portion of employee contributions to such plans. If this is available, you should structure your contributions to receive the maximum employer matching contribution.

If you have income from wages or self-employment income, you can build tax-sheltered investments by contributing to a traditional (pre-tax contributions) or a Roth IRA (after-tax contributions). You may also be able to contribute to a spousal IRA even when your spouse has little or no earned income.

Tip: To get the most from IRA contributions, fund the IRA as early as possible in the year. Also, pay the IRA trustee out of separate funds, not out of the amount in the IRA. Following these two rules will ensure that you get the most tax-deferred earnings possible from your money.

If You Have Your Own Business, Set Up and Contribute to a Retirement Plan

Similarly, if you have your own business, consider setting up and contributing as much as possible to a retirement plan. These are allowed even for a sideline or moonlighting businesses. Several types of plans are available which minimize the paperwork involved in establishing and administering such a plan.

Use the Gift-Tax Exclusion to Shift Income

In 2016, you can give away $14,000 ($28,000 if joined by a spouse) per donee, per year without paying federal gift tax. And, you can give $14,000 to as many donees as you like. The income on these transfers will then be taxed at the donee's tax rate, which is in many cases lower.

Note: Special rules apply to children under age 18. Also, if you directly pay the medical or educational

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expenses of the donee, such gifts will not be subject to gift tax.

For gift tax purposes, contributions to Qualified Tuition Programs (Section 529) are treated as completed gifts even though the account owner has the right to withdraw them. As such, they qualify for the up-to-$14,000 annual gift tax exclusion in 2016. One contributing more than $14,000 may elect to treat the gift as made in equal installments over the year of gift and the following four years so that up to $56,000 can be given tax-free in the first year.

Consider Tax-Exempt Municipal Bonds

Interest on state or local municipal bonds is generally exempt from federal income tax and from tax by the issuing state or locality. For that reason, interest paid on such bonds is somewhat less than that paid on commercial bonds of comparable quality. However, for individuals in higher brackets, the interest from municipal bonds will often be greater than from higher paying commercial bonds after reduction for taxes. Gain on sale of municipal bonds is taxable and loss is deductible. Tax-exempt interest is sometimes an element in the computation of other tax items. Interest on loans to buy or carry tax-exempts is non-deductible.

Give Appreciated Assets to Charity

If you're planning to make a charitable gift, it generally makes more sense to give appreciated long-term capital assets to the charity, instead of selling the assets and giving the charity the after-tax proceeds. Donating the assets instead of the cash prevents your having to pay capital gains tax on the sale, which can result in considerable savings, depending on your tax bracket and the amount of tax that would be due on the sale. Additionally, you can obtain a tax deduction for the fair market value of the property.

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Tip: Many taxpayers also give depreciated assets to charity. Deduction is for fair market value; no loss deduction is allowed for depreciation in value of a personal asset. Depending on the item donated, there may be strict valuation rules and deduction limits.

Tip: Taxpayers age 70 1/2 and older can take advantage of tax benefits associated with Qualified Charitable Distributions (QCDs)--IRA withdrawals that are transferred directly to a qualified charitable organization. See the article,*Qualified Charitable Distributions from IRAs*, below, for additional details.

Keep Track of Mileage Driven for Business, Medical or Charitable Purposes

If you drive your car for business, medical or charitable purposes, you may be entitled to a deduction for miles driven. For 2016, it's 54 cents per mile for business, 19 cents for medical and moving purposes, and 14 cents for service for charitable organizations. You need to keep detailed daily records of the mileage driven for these purposes to substantiate the deduction.

Take Advantage of Employer Benefit Plans Such as Flexible Spending Accounts (FSAs) or Health Spending Accounts (HSAs)

Medical and dental expenses are generally only deductible to the extent they exceed 10 percent of your adjusted gross income (AGI). For most individuals, particularly those with high income, this eliminates the possibility for a deduction.

However, you can effectively get a deduction for these items if your employer offers a Flexible Spending Account (sometimes called a cafeteria plan). These plans permit you to redirect a portion of your salary to pay these types of expenses with pre-tax dollars. Another such

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arrangement is a Health Savings Account. Ask your employer if they provide either of these plans.

If Self-Employed, Take Advantage of Special Deductions

You may be able to expense up to $500,000 in 2016 for qualified equipment purchases for use in your business immediately instead of writing it off over many years. Additionally, self-employed individuals can deduct 100 percent of their health insurance premiums as business expenses. You may also be able to establish a Keogh, SEP or SIMPLE IRA plan, or a Health Savings Account, as mentioned above.

If You're Self-Employed, Hire Your Child in the Business

If your child is under age 18, he or she is not subject to employment taxes such as FICA and federal unemployment taxes from your unincorporated business (income taxes still apply). In addition, your child may be able to contribute to an IRA using earned income. This will reduce your income for both income and employment tax purposes and shift assets to the child at the same time; however, you cannot hire your child if he or she in under the age of 8 years old.

Take Out a Home-Equity Loan

Most consumer-related interest expense, such as from car loans or credit cards, is not deductible. Interest on a home equity loan, however, can be deductible. It may be advisable to take out a home-equity loan to pay off other nondeductible obligations.

Bunch Your Itemized Deductions

Certain itemized deductions, such as medical or employment related expenses, are only deductible if they exceed a certain amount. It may be advantageous to delay payments in one year and prepay them in the next year to bunch the expenses in one year. This way you stand a better chance of getting a deduction.

A word about proper documentation...

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Unfortunately, many taxpayers forgo worthwhile tax credits and deductions because they have neglected to keep proper receipts or records. Keeping adequate records is required by the IRS for employee business expenses, deductible travel and entertainment expenses, and charitable gifts and travel, and more.

But don't do it just because the IRS says so. Neglecting to track these deductions can lead to overlooking them.

You also need to maintain records regarding your income. If your receive a large tax-free amount, such as a gift or inheritance, make certain to document the item so that the IRS does not later claim that you had unreported income.

It's never too early to get started on tax planning for 2016 and beyond. Call the office today and find out how you can save money on your taxes this year.

Qualified Charitable Distributions from IRAs

If you're age 70 1/2 or older, you can now take advantage of recent legislation allowing you to avoid paying income tax on IRA withdrawals transferred directly to a qualified charitable organization.

Referred to as Qualified Charitable Distributions (QCDs), they can also be used to satisfy all or part of your required minimum distribution. Here's an example:

Let's say your required minimum distribution in 2016 is $22,000. If you make a qualified charitable distribution of $15,000 for 2016, then you would need to withdraw another $7,000 to meet the amount required for your 2016 required minimum distribution.

Required minimum distributions (RMDs) must be taken each year beginning with the year you turn age 70 1/2--whether you are still working or not. The RMD for each year is calculated by dividing the IRA account balance as of December 31 of the prior year by the applicable

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distribution period or life expectancy. This rule does not apply to your Roth IRAs.

What is a Qualified Charitable Distribution (QCD)?

Generally, a qualified charitable distribution (QCD) is an otherwise taxable distribution from an IRA (other than an ongoing SEP or SIMPLE IRA), that is owned by an individual who is age 70 1/2 or over that is paid directly from the IRA to a qualified charity.

What are the Rules?

Unlike most tax-related rules, the rules for QCDs are fairly straightforward:

- You must be age 70 1/2 or older
- The QCD must be made from a traditional IRA, Roth IRA, or individual retirement annuity, but not from a simplified employee pension, a simple retirement account or an inherited IRA
- The QCD must be a direct transfer from the IRA trustee to the charitable organization
- The organization must be one that qualifies for a charitable income tax deduction of an individual, that is, no private foundations (i.e. that give out grants)
- The organization must acknowledge the charitable contribution similar to a charitable income tax deduction or donor advised fund

Tax Advantages of QCDs

Generally, taxable IRA distributions must be included in adjusted gross income (AGI)--even if donated to charity. You may be able to take a deduction for a charitable donation, but could be subject to a 50 percent AGI limitation, which means you wouldn't be able to deduct the full amount in that tax year and might be subject to income tax on the difference.

QCDs bypass this potential problem because they are exempt from taxation--and you get to take the full amount as a charitable deduction.

Another tax advantage is that there is no increase in your AGI that could, for example, increase your income tax on Social Security income or

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cause Medicare insurance premiums to increase. It could also reduce deduction amounts for say, medical expenses, which are limited to amounts more than 10 percent of AGI (7.5 percent for those 65 and older in 2016).

In addition, because there is no addition to income, you may be able to take the standard deduction (often a higher dollar amount and more beneficial than itemizing) *and* claim the deduction for a charitable contribution.

The $100,000 limit is an annual amount, so you can take advantage of a QCD for as many years as you wish--and it applies to each spouse's IRA. As such up to $200,000 ($100,000 per spouse) could be donated in a given tax year and still qualify for the exclusion.

Reporting a QCD on your Income Tax Return

Charitable distributions are reported on Form 1099-R for the calendar year the distribution is made. You should receive Form 1099-R by February 1, 2017. To report a qualified charitable distribution on your Form 1040 tax return, you generally report the full amount of the charitable distribution on the line for IRA distributions. On the line for the taxable amount, enter zero if the full amount was a qualified charitable distribution and enter "QCD" next to this line.

You must also file Form 8606, Nondeductible IRAs, if you made the qualified charitable distribution from a traditional IRA in which you had basis and received a distribution from the IRA during the same year, other than the qualified charitable distribution; or the qualified charitable distribution was made from a Roth IRA.

Questions?

Don't hesitate to call if you would like more information about qualified charitable distributions or have any questions about IRAs and minimum required distributions for IRAs and how it affects your taxes.

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Lost Your Job? There Could Be Tax Consequences

Given current economic conditions, you may be faced with tax questions surrounding a job loss and unemployment issues. Here are some answers:

Q: What if I receive unemployment compensation in 2016?

A: Unemployment compensation you receive under the unemployment compensation laws of the United States or of a state are considered taxable income and must be reported on your federal tax return. If you received unemployment compensation, you will receive Form 1099-G showing the amount you were paid and any federal income tax you elected to have withheld.

Types of unemployment benefits include:

- Benefits paid by a state or the District of Columbia from the Federal Unemployment Trust Fund
- Railroad unemployment compensation benefits
- Disability payments from a government program paid as a substitute for unemployment compensation
- Trade readjustment allowances under the Trade Act of 1974
- Unemployment assistance under the Disaster Relief and Emergency Assistance Act

You must also include benefits from regular union dues paid to you as an unemployed member of a union in your income. However, other rules apply if you contribute to a special union fund and your contributions are not deductible. If this applies to you, only include in income the amount you received from the fund that is more than your contributions.

Q: Can I have federal income tax withheld?

Yes, you can choose to have federal income tax withheld from your unemployment benefits by filling out Form W-4V,*Voluntary Withholding Request*. If you complete the form and give it to the paying office, they will withhold tax at 10 percent of your payments. If you choose not to have tax withheld, you may have to make estimated tax payments throughout the year.

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Q: What if I lost my job?

A: The loss of a job may create new tax issues. Severance pay and unemployment compensation are taxable. Payments for any accumulated vacation or sick time are also taxable. You should ensure that enough taxes are withheld from these payments or make estimated tax payments to avoid a big bill at tax time. Public assistance and SNAP (formerly known as food stamps) are not taxable.

Q: What if I searched for a job?

A: You may be able to deduct certain expenses you incurred while looking for a new job, even if you did not get a new job. Expenses include travel, resume preparation, and outplacement agency fees. Moving costs for a new job at least 50 miles away from your home may also be deductible.

Q: What if my employer went out of business or into bankruptcy?

A: Your employer must provide you with a W-2 Form showing your wages and withholdings by February 1 (the exact date may vary in a given tax year). You should keep up-to-date records or pay stubs until you receive your Form W-2. If your employer or its representatives fail to provide you with a Form W-2, contact the IRS. They can help by providing you with a substitute Form W-2. If your employer liquidated your 401(k) plan, you have 60 days to roll it over into another qualified retirement plan or IRA.

If you have experienced a job loss and have questions, please call. You need to be prepared for the tax consequences.

Tax Implications of Retiring Overseas

Are you approaching retirement age and wondering where you can retire to make your retirement nest egg last longer? Retiring abroad may be the answer. But first, it's important to look at the tax implications

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because not all retirement country destinations are created equal. Here's what you need to know.

Taxes on Worldwide Income

Leaving the United States does not exempt U.S. citizens from their U.S. tax obligations. While some retirees may not owe any U.S. income tax while living abroad, they must still file a return annually with the IRS. This would be the case even if all of their assets were moved to a foreign country. The bottom line is that you may still be taxed on income regardless of where it is earned.

Unlike most countries, the United States taxes individuals based on citizenship and not residency. As such, every U.S. citizen (and resident alien) must file a tax return reporting worldwide income (including income from foreign trusts and foreign bank and securities accounts) in any given taxable year that exceeds threshold limits for filing.

The filing requirement generally applies even if a taxpayer qualifies for tax benefits, such as the foreign earned income exclusion or the foreign tax credit, that substantially reduce or eliminate U.S. tax liability.

Note: These tax benefits are not automatic and are only available if an eligible taxpayer files a U.S. income tax return.

Any income received or deductible expenses paid in foreign currency must be reported on a U.S. return in U.S. dollars. Likewise, any tax payments must be made in U.S. dollars.

In addition, taxpayers who are retired may have to file tax forms in the foreign country in which they reside. You may, however, be able to take a tax credit or a deduction for income taxes you paid to a foreign country. These benefits can reduce your taxes if both countries tax the same income.

Nonresident aliens who receive income from U.S. sources must determine whether they have a U.S. tax obligation. The filing deadline for nonresident aliens is generally April 15 or June 15 depending on sources of income.

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Income from Social Security or Pensions

If Social Security is your only income, then your benefits may not be taxable and you may not need to file a federal income tax return. If you receive Social Security you should receive a Form SSA-1099, Social Security Benefit Statement, showing the amount of your benefits. Likewise, if you have pension or annuity income, you should receive a Form 1099-R for each distribution plan.

Retirement income is generally not taxed by other countries. As a U.S. citizen retiring abroad who receives Social Security, for instance, you may owe U.S. taxes on that income, but may not be liable for tax in the country where you're spending your retirement years.

However, if you receive income from other sources (either U.S. or country of retirement) as well, from a part-time job or self-employment, for example, you may have to pay U.S. taxes on some of your benefits. You may also be required to report and pay taxes on any income earned in the country where you retired.

Each country is different, so consult a local tax professional or one who specializes in expat tax services.

Foreign Earned Income Exclusion

If you've retired overseas, but take on a full-or part-time job or earn income from self-employment, the IRS allows qualifying individuals to exclude all, or part, of their incomes from U.S. income tax by using the Foreign Earned Income Exclusion (FEIE). In 2016, this amount is $101,300. This means that if you qualify, you won't pay tax on up to $101,300 of your wages and other foreign earned income in 2016.

Note: Income earned overseas is exempt from taxation only if certain criteria are met such as residing outside of the country for at least 330 days over a 12-month period, or an entire calendar year.

Tax Treaties

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The United States has income tax treaties with a number of foreign countries, but these treaties generally don't exempt residents from their obligation to file a tax return.

Under these treaties, residents (not necessarily citizens) of foreign countries are taxed at a reduced rate, or are exempt from U.S. income taxes on certain items of income they receive from sources within the United States. These reduced rates and exemptions vary among countries and specific items of income.

Treaty provisions are generally reciprocal; that is they apply to both treaty countries. Therefore, a U.S. citizen or resident who receives income from a treaty country and who is subject to taxes imposed by foreign countries may be entitled to certain credits, deductions, exemptions, and reductions in the rate of taxes of those foreign countries.

Affordable Care Act

Starting in 2014, the individual shared responsibility provision calls for each individual to have minimum essential coverage (MEC) for each month, qualify for an exemption, or make a payment when filing his or her federal income tax return.

All U.S. citizens are subject to the individual shared responsibility provision. If you are not yet eligible for Medicare, U.S. citizens living abroad are generally subject to the same individual shared responsibility provision as U.S. citizens living in the United States.

However, U.S. citizens or residents living abroad for at least 330 days within a 12 month period are treated as having MEC during those 12 months and thus will not owe a shared responsibility payment for any of those 12 months. Also, U.S. citizens who qualify as a bona fide resident of a foreign country for an entire taxable year are treated as having MEC for that year.

State Taxes

Many states tax resident income as well, so even if you retire abroad, you may still owe state taxes--unless you established residency in a no-tax state before you moved overseas.

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Some states honor the provisions of U.S. tax treaties; however, some states do not, therefore it is prudent to consult a tax professional.

Relinquishing U.S. Citizenship

Taxpayers who relinquish their U.S. citizenship or cease to be lawful permanent residents of the United States during any tax year must file a dual-status alien return and attach Form 8854, *Initial and Annual Expatriation Statement*. A copy of the Form 8854 must also be filed with Internal Revenue Service (Philadelphia, PA 19255-0049), by the due date of the tax return (including extensions).

Note: Giving up your U.S. citizenship doesn't mean giving up your right to receive social security, pensions, annuities or other retirement income. However, the U.S. Internal Revenue Code (IRC) requires the Social Security Administration (SSA) to withhold nonresident alien tax from certain Social Security monthly benefits. If you are a nonresident alien receiving social security retirement income, then SSA will withhold a 30 percent flat tax from 85 percent of those benefits unless you qualify for a tax treaty benefit. This results in a withholding of 25.5 percent of your monthly benefit amount.

Consult a Tax Professional Before You Retire

Don't wait until you're ready to retire to consult a tax professional. Call the office today and find out what your options are.

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Employee Business Expenses

If you pay for work-related expenses out of your own pocket, you may be able to deduct those costs. In most cases, you can claim allowable expenses if you itemize on IRS Schedule A, Itemized Deductions. You can deduct the amount that is more than two percent of your adjusted gross income. Here are five other facts you should know:

1. Ordinary and Necessary. You can only deduct unreimbursed expenses that are ordinary and necessary to your work as an employee. An ordinary expense is one that is common and accepted in your industry. A necessary expense is one that is appropriate and helpful to your business.

2. Expense Examples. Some costs that you may be able to deduct include:

- Required work clothes or uniforms not appropriate for everyday use.
- Supplies and tools you use on the job.
- Business use of your car.
- Business meals and entertainment.
- Business travel away from home.
- Business use of your home.
- Work-related education.

This list is not all-inclusive. Special rules apply if your employer reimbursed you for your expenses. To learn more call the office or check out Publication 529, *Miscellaneous Deductions*. You should also refer to Publication 463,*Travel, Entertainment, Gift and Car Expenses*.

3. Forms to Use. In most cases, you report your expenses on Form 2106 or Form 2106-EZ. After you figure your allowable expenses, you then list the total on Schedule A as a miscellaneous deduction.

4. Educator Expenses. If you are a K-12 teacher, you may be able to deduct up to $250 of certain expenses you pay in 2016. These may include books, supplies, equipment and other materials used in the

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classroom. Claim this deduction as an adjustment on your return, rather than an itemized deduction. For more on this topic, please call.

5. Keep Records. You must keep records to prove the expenses you deduct so that you can prepare a complete and accurate income tax return. The law doesn't require any special form of records; however, you should keep all receipts, canceled checks or other proof of payment, and any other records to support any deductions or credits you claim. If you file a claim for refund, you must be able to prove by your records that you have overpaid your tax. For what records to keep, see Publication 17, *Your Federal Income Tax*.

Please call the office if you have any questions about employee expenses or need help setting up a recordkeeping system to document your expenses.

Tax Tips for Children with Investment Income

Special tax rules may apply to some children who receive investment income. The rules may affect the amount of tax and how to report the income. Here are five important points to keep in mind if your child has investment income this year:

1. Investment Income. Investment income generally includes interest, dividends and capital gains. It also includes other unearned income, such as from a trust.

2. Parent's Tax Rate. If your child's total investment income is more than $2,100 then your tax rate may apply to part of that income instead of your child's tax rate. See the instructions for Form 8615, *Tax for Certain Children Who Have Unearned Income*.

3. Parent's Return. You may be able to include your child's investment income on your tax return if it was more than $1,050 but less than $10,500 for the year. If you make this choice, then your child will not

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have to file his or her own return. See Form 8814, *Parents' Election to Report Child's Interest and Dividends*, for more information.

4. Child's Return. If your child's investment income was $10,500 or more in 2016 then the child must file their own return. File Form 8615 with the child's federal tax return next April.

5. Net Investment Income Tax. Your child may be subject to the Net Investment Income Tax if they must file Form 8615. Use Form 8960, *Net Investment Income Tax*, to figure this tax.

Questions?

Please call if you have any questions about your child's investment income.

Five Things you Should Know about the AMT

You may not know about the Alternative Minimum Tax (AMT) because you've never had to pay it before. However, your income may have changed and you may be required to pay it when you file your 2016 tax return next year. The AMT is an income tax imposed at nearly a flat rate on an adjusted amount of taxable income above a certain threshold. If you have a higher income, you may be subject to the AMT.

Here are five facts you should know about the AMT:

1. Know when the AMT applies. You may have to pay the AMT if your taxable income, plus certain adjustments, is more than your AMT exemption amount. Your filing status and income define the amount of your exemption. In most cases, if your income is below this amount, you will not owe the AMT.

2. Know exemption amounts. The 2016 AMT exemption amounts are:

- $53,900 if you are Single or Head of Household.
- $83,800 if you are Married Filing Jointly or Qualifying Widow(er).
- $41,900 if you are Married Filing Separately.

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You will reduce your AMT exemption if your income is more than a certain amount.

3. Use a qualified tax professional. Keep in mind that the AMT rules are complex. The best way to prepare and file your tax return is to use a qualified tax professional.

4. AMT Assistant Tool. Use the AMT Assistant tool on the IRS website to quickly find out if you will need to pay the tax.

5. Use the right forms. Usually, if you owe the AMT, you must file Form 6251, *Alternative Minimum Tax -- Individuals*. Some taxpayers who owe the AMT can file Form 1040A and use the AMT Worksheet in the instructions.

Wondering if the AMT affects you this year? Give the office a call today and find out.

Nine Facts about the Adoption Tax Credit

If you adopting a child this year, you may qualify for a tax credit. Here are nine things you should know about the adoption credit.

1. Credit or Exclusion. The credit is nonrefundable. This means that the credit may reduce your tax to zero. If the credit is more than your tax, you can't get any additional amount as a refund. If your employer helped pay for the adoption through a written qualified adoption assistance program, you may qualify to exclude that amount from tax.

2. Maximum Benefit. The maximum adoption tax credit and exclusion for 2016 is $13,460 per child.

3. Credit Carryover. If your credit is more than your tax, you can carry any unused credit forward. This means that if you have an unused credit in 2016, you can use it to reduce your taxes for 2017. You can do this for up to five years, or until you fully use the credit, whichever comes first.

4. Eligible Child. An eligible child is an individual under age 18 or a person who is physically or mentally unable to care for him or herself.

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5. Qualified Expenses. Adoption expenses must be directly related to the adoption of the child and be reasonable and necessary. Types of expenses that can qualify include adoption fees, court costs, attorney fees, and travel.

6. Domestic or Foreign Adoptions. In most cases, you can claim the credit whether the adoption is domestic or foreign. However, the timing rules for which expenses to include differ between the two types of adoption.

7. Special Needs Child. If you adopted an eligible U.S. child with special needs and the adoption is final, a special rule applies. You may be able to take the tax credit even if you didn't pay any qualified adoption expenses.

8. No Double Benefit. Depending on the adoption's cost, you may be able to claim both the tax credit and the exclusion. However, you can't claim both a credit and exclusion for the same expenses. This rule prevents you from claiming both tax benefits for the same expense.

9. Income Limits. The credit and exclusion are subject to income limitations. The limits may reduce or eliminate the amount you can claim depending on the amount of your income.

Don't hesitate to call if you have any questions about the adoption tax credit.

Tips for Deducting Medical and Dental Expenses

If you, your spouse or dependents have significant medical or dental costs in 2016, you may be able to deduct those expenses when you file your tax return next year. Here are eight things you should know about medical and dental expenses and other benefits.

1. You must itemize. You can only claim medical expenses that you paid for in 2016, and only if you itemize on Schedule A on Form 1040. If you take the standard deduction, you can't claim these expenses.

2. Deduction is limited. You can deduct all the qualified medical costs that you paid for during the year. However, you can only deduct the

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amount that is more than 10 percent of your adjusted gross income. The AGI threshold is still 7.5 percent of your AGI if you or your spouse is age 65 or older. This exception applies through December 31, 2016.

3. Expenses must have been paid in 2016. You can include medical and dental expenses you paid during the year, regardless of when the services were provided. Be sure to save your receipts and keep good records to substantiate your expenses.

4. You can't deduct reimbursed expenses. Your total medical expenses for the year must be reduced by any reimbursement. Costs reimbursed by insurance or other sources do not qualify for a deduction. Normally, it makes no difference if you receive the reimbursement or if it is paid directly to the doctor or hospital.

5. Whose expenses qualify. You may include qualified medical expenses you pay for yourself, your spouse and your dependents. Some exceptions and special rules apply to divorced or separated parents, taxpayers with a multiple support agreement, or those with a qualifying relative who is not your child.

6. Types of expenses that qualify. You can deduct expenses primarily paid for the diagnosis, cure, mitigation, treatment or prevention of disease, or treatment affecting any structure or function of the body. For drugs, you can only deduct prescription medication and insulin. You can also include premiums for medical, dental and certain long-term care insurance in your expenses. And, you can also include lactation supplies.

7. Transportation costs may qualify. You may deduct transportation costs primarily for and essential to medical care that qualifies as a medical expense, including fares for a taxi, bus, train, plane or ambulance as well as tolls and parking fees. If you use your car for medical transportation, you can deduct actual out-of-pocket expenses such as gas and oil, or you can deduct the standard mileage rate for medical expenses, which is 19 cents per mile for 2016.

8. No double benefit. You can't claim a tax deduction for medical and dental expenses you paid for with funds from your Health Savings Accounts (HAS) or Flexible Spending Arrangements (FSA). Amounts

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paid with funds from those plans are usually tax-free. This rule prevents two tax benefits for the same expense.

Please call if you need help figuring out what qualifies as a medical or dental expense.

Tax Due Dates for May 2016

May 2

Employers - Social Security, Medicare, and withheld income tax. File form 941 for the first quarter of 2016. Deposit any undeposited tax. (If your tax liability is less than $2,500, you can pay it in full with a timely filed return.) If you deposited the tax for the quarter in full and on time, you have until May 10 to file the return.

May 10

Employees who work for tips - If you received $20 or more in tips during April, report them to your employer. You can use Form 4070.

Employers - Social Security, Medicare, and withheld income tax. File Form 941 for the first quarter of 2016. This due date applies only if you deposited the tax for the quarter in full and on time.

May 16

Employers - Nonpayroll withholding. If the monthly deposit rule applies, deposit the tax for payments in April.

Employers - Social Security, Medicare, and withheld income tax. If the monthly deposit rule applies, deposit the tax for payments in April.

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