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Minimizing Tax on Mutual Fund Activities

Whether you're new to mutual funds or a seasoned investor who wants to learn more, these tips will help you avoid the tax bite on mutual fund investments.

First, you need to understand how distributions from mutual funds are taxed.

Tax law generally treats mutual fund shareholders as if they directly owned a proportionate share of the fund's portfolio of securities and you must report as income any mutual fund distributions, whether or not they are reinvested. Thus, all dividends and interest from securities in the portfolio, as well as any capital gains from the sales of securities, are taxed to the shareholders.

Taxable Distributions

There are two types of taxable distributions: (1) ordinary dividends and (2) capital gain distributions.

Ordinary Dividends. Distributions of ordinary dividends, which come from the interest and dividends earned by securities in the fund's portfolio, represent the net earnings of the fund. They are paid out periodically to shareholders. Like the return on any other investment, mutual fund dividend payments decline or rise from year to year, depending on the income earned by the fund in accordance with its investment policy. These dividend payments are considered ordinary income and must be reported on your tax return.

In 2016 (same as 2015), dividend income that falls in the highest tax bracket (39.6%) is taxed at 20 percent. For the middle tax brackets (25-35%) the dividend tax rate is 15 percent, and for the two lower ordinary income tax brackets of 10% and 15%, the dividend tax rate is zero.

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Qualified dividends. Qualified dividends are the ordinary dividends subject to the same 0 or 15 percent maximum tax rate that applies to net capital gain. They are subject to the 15 percent rate if the regular tax rate that would apply is 25 percent or higher; however the highest tax bracket, 39.6%, is taxed at a 20 percent rate. If the regular tax rate that would apply is lower than 25 percent, qualified dividends are subject to the 0 percent rate.

Dividends from foreign corporations are qualified where their stock or ADRs are traded on U.S. exchanges or with IRS approval where the dividends are covered by U.S. tax treaties. Dividends from mutual funds qualify where a mutual fund is receiving qualified dividends and distributing the required proportions thereof.

Capital gain distributions. When gains from the fund's sales of securities exceed losses, they are distributed to shareholders. As with ordinary dividends, these capital gain distributions vary in amount from year to year. They are treated as long-term capital gain, regardless of how long you have owned your fund shares.

A mutual fund owner may also have capital gains from selling mutual fund shares.

Capital gains rates. The beneficial long-term capital gains rates on sales of mutual fund shares apply only to profits on shares held more than a year before sale. Profit on shares held a year or less before sale is considered ordinary income, but capital gain distributions are long-term regardless of the length of time held before the distribution.

Starting with tax year 2013, long term capital gains are taxed at 20 percent (39.6% tax bracket), 15 percent for the middle tax brackets (25%, 28%, 33%, and 35%), and 0 percent for the 10% and 15% tax brackets.
At tax time, your mutual fund will send you a Form 1099-DIV, which tells you what earnings to report on your income tax return, and how much of it is qualified dividends. Because tax rates on qualified dividends are

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the same as for capital gains distributions and long-term gains on sales, these items combined in your tax reporting, that is, qualified dividends added to long-term capital gains. Capital losses are netted against capital gains before applying the favorable capital gains rates and losses will not be netted against dividends.

Medicare Tax. Starting with tax year 2013, an additional Medicare tax of 3.8 percent is applied to net investment income for individuals with modified adjusted gross income above $200,000 (single filers) and $250,000 (joint filers).

Minimizing Tax Liability on Mutual Fund Activities

Now that you have a better understanding of how mutual funds are taxed, here are seven tips for minimizing the tax on your mutual fund activities.

1. Keep Track of Reinvested Dividends

Most funds offer you the option of having dividend and capital gain distributions automatically reinvested in the fund--a good way to buy new shares and expand your holdings. While most shareholders take advantage of this service, it is not a way to avoid being taxed. Reinvested ordinary dividends are still taxed (at long-term capital gains rates if qualified), just as if you had received them in cash. Similarly, reinvested *capital gain distributions* are taxed as long-term capital gain.

Tip: If you reinvest, add the amount reinvested to the "cost basis" of your account, i.e., the amount you paid for your shares. The cost basis of your new shares purchased through automatic reinvesting is easily seen from your fund account statements. This information is important later on when you sell shares.

2. Be Aware That Exchanges of Shares Are Taxable Events

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The "exchange privilege," or the ability to exchange shares of one fund for shares of another, is a popular feature of many mutual fund "families," i.e., fund organizations that offer a variety of funds. For tax purposes, exchanges are treated as if you had sold your shares in one fund and used the cash to purchase shares in another fund. In other words, you must report any capital gain from the exchange on your return. The same tax rules used for calculating gains and losses when you redeem shares apply when you exchange them.

Note: Gains on these redemptions and exchanges are taxable whether the fund invests in taxable or tax-exempt securities.

3. Do Not Overlook the Advantages of Tax-Exempt Funds

If you are in the higher tax brackets and are seeing your investment profits taxed away, then there is a good alternative to consider: tax-exempt mutual funds. Distributions from such funds that are attributable to interest from state and municipal bonds are exempt from federal income tax (although they may be subject to state tax).

The same is true of distributions from tax-exempt money market funds. These funds also invest in municipal bonds, but only in those that are short-term or close to maturity, the aim being to reduce the fluctuation in NAV that occurs in long-term funds.

Many taxpayers can ease the tax bite by investing in municipal bond funds for example.

Note: Capital gain distributions paid by municipal bond funds (unlike distributions of interest) are not free from federal tax. Most states also tax these capital gain distributions.
Although income from tax-exempt funds is federally tax-exempt, you must still report on your tax return the amount of tax-exempt income you received during the year. This is an information-reporting requirement only and does not convert tax-exempt earnings into taxable income.

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Your tax-exempt mutual fund will send you a statement summarizing its distributions for the past year and explaining how to handle tax-exempt dividends on a state-by-state basis.

4. Keep Records of Your Mutual Fund Transactions

It is very important to keep the statements from each mutual fund you own, especially the year-end statement.

By law, mutual funds must send you a record of every transaction in your account, including reinvestments and exchanges of shares. The statement shows the date, amount, and number of full and fractional shares bought or sold. These transactions are also contained in the year-end statement.

In addition, you will receive a year-end Form 1099-B, which reports the sale of fund shares, for any non-IRA mutual fund account in which you sold shares during the year.

Why is recordkeeping so important? When you sell mutual fund shares, you will realize a capital gain or loss in the year the shares are sold. You must pay tax on any capital gain arising from the sale, just as you would from a sale of individual securities. (Losses may be used to offset other gains in the current year and deducted up to an additional $3,000 of ordinary income. Remaining loss may be carried for comparable treatment in later years.)

The amount of the gain or loss is determined by the difference between the cost basis of the shares (generally the original purchase price) and the sale price. Thus, in order to figure the gain or loss on a sale of shares, it is essential to know the cost basis. If you have kept your statements, you will be able to figure this out.

Example: In 2010, you purchased 100 shares of Fund JKL at $10 a share for a total purchase price of $1,000. Your cost basis for each share is $10 (what you paid for the shares). Any fees or commissions paid at the time of purchase are included in the basis, so since you paid an up-front

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commission of two percent, or $20, on the purchase, your cost basis for each share is $10.20 ($1,020 divided by 100). Let's say you sell your Fund JKL shares this year for $1,500. Assume there are no adjustments to your $ 1,020 basis, such as basis attributable to shares purchased through reinvestment. On this year's income tax return, you report a capital gain of $480 ($1,500 minus $1,020).

Note: Commissions or brokerage fees are not deducted separately as investment expenses on your tax return since they are taken into account in your cost basis.
One of the advantages of mutual fund investing is that the fund provides you with all of the records that you need to compute gains and losses--a real plus at tax time. Some funds even provide cost basis information or compute gains and losses for shares sold. That is why it is important to save the statements. However, you are not required to use the fund's gain or loss computations in your tax reporting.

5. Re-investing Dividends & Capital Gain Distributions when Calculating

Make sure that you do not pay any unnecessary capital gain taxes on the sale of mutual fund shares because you forgot about reinvested amounts. When you reinvest dividends and capital gain distributions to buy more shares, you should add the cost of those shares (that is, the amount invested) to the cost basis of the shares in that account because you have already paid tax on those shares.

Failure to include reinvested dividends and capital gain distributions in your cost basis is a costly mistake.

6. Don't Forget State Taxation

Many states treat mutual fund distributions the same way the federal government does. There are, however, these areas of different treatment:

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- If your mutual fund invests in U.S. government obligations, states generally exempt from state taxation dividends attributable to federal obligation interest.
- Most states do not tax income from their own obligations, whether held directly or through mutual funds. On the other hand, the majority of states do tax income from the obligations of other states. Thus, in most states, you will not pay state tax to the extent you receive, through the fund, income from obligations issued by your state or its municipalities.
- Most states don't grant reduced rates for capital gains or dividends.

7. Don't Overlook Possible Tax Credits for Foreign Income

If your fund invests in foreign stocks or bonds, part of the income it distributes may have been subject to foreign tax withholding. If so, you may be entitled to a tax deduction or credit for your pro-rata share of taxes paid. Your fund will provide you with the necessary information.

Tip: Because a tax credit provides a dollar-for-dollar offset against your tax bill, while a deduction reduces the amount of income on which you must pay tax, it is generally advantageous to claim the foreign tax credit. If the foreign tax doesn't exceed $300 ($600 on a joint return), then you may not need to file IRS form 1116 to claim the credit.

Questions?

If you have any questions about the tax treatment of mutual funds, don't hesitate to call.

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Filing an Amended Tax Return

What should you do if you already filed your federal tax return and then discover a mistake? First of all, don't worry. In most cases, all you have to do is file an amended tax return. But before you do that, here is what you should be aware of when filing an amended tax return.

Taxpayers should use Form 1040X, *Amended U.S. Individual Income Tax Return*, to file an amended (corrected) tax return.

You must file the corrected tax return on paper. An amended return cannot be e-filed. If you need to file another schedule or form, don't forget to attach it to the amended return.

An amended tax return should only be filed to correct errors or make changes to your original tax return. For example, you should amend your return if you need to change your filing status, or correct your income, deductions or credits.

You normally do not need to file an amended return to correct math errors because the IRS automatically makes those changes for you. Also, do not file an amended return because you forgot to attach tax forms, such as W-2s or schedules. The IRS normally will mail you a request asking for those.

Note: Eligible taxpayers who filed a 2015 tax return and claimed a premium tax credit using incorrect information from either the federally facilitated or a state-based Health Insurance Marketplace, generally do not have to file an amended return regardless of the nature of the error, even if additional taxes would be owed. The IRS may contact you to ask for a copy of your corrected Form 1095-A to verify the information.

Nonetheless, you may choose to file an amended return because some taxpayers may find that filing an amended return may reduce their tax

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owed or give them a larger refund (see below for additional information).
If you are amending more than one tax return, prepare a separate 1040X for each return and mail them to the IRS in separate envelopes. Note the tax year of the return you are amending at the top of Form 1040X. You will find the appropriate IRS address to mail your return to in the Form 1040X instructions.

If you are filing an amended tax return to claim an additional refund, wait until you have received your original tax refund before filing Form 1040X. Amended returns take up to 16 weeks to process. You may cash your original refund check while waiting for the additional refund.

If you owe additional taxes with Form 1040X, file it and pay the tax as soon as possible to minimize interest and penalties. You can use IRS Direct Pay to pay your tax directly from your checking or savings account.

Generally, you must file Form 1040X within three years from the date you filed your original tax return or within two years of the date you paid the tax, whichever is later. For example, the last day for most people to file a 2013 claim for a refund is April 17, 2017. Special rules may apply to certain claims. For more information see the instructions for Form 1040X or call the office.

You can track the status of your amended tax return for the current year three weeks after you file. You can also check the status of amended returns for up to three prior years. To use the "Where's My Amended Return" tool on the IRS website, just enter your taxpayer identification number (usually your Social Security number), date of birth and zip code. If you have filed amended returns for more than one year, you can select each year individually to check the status of each.

Filing an amended return after receiving a corrected Form 1095-A

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If you enrolled in qualifying Marketplace health coverage, then you probably filed a tax return based on a Form 1095-A that you received from the Marketplace.

Some taxpayers may receive a second Form 1095-A because the information on their initial form was incorrect or incomplete. If you filed a 2015 tax return based on the initial Form 1095-A and claimed the premium tax credit using incorrect information from either the federally-facilitated or a state-based Health Insurance Marketplace, you should determine the effect the changes to your form might have on your return. Comparing the two Forms 1095-A can help you assess whether you should file an amended tax return, Form 1040X.

Corrected Form 1095-A

A corrected form generally indicates you previously received a Form 1095-A containing one or more errors.

- If you have not yet filed your tax return, you should use this new form when completing your tax return.
- If you have already filed your tax return, you will need to determine the effect the changes to your form might have on your return. Some changes--such as a corrected address--may not affect your tax return or require any action on your part, while others--such as a change in your monthly premium amount--might. Compare the corrected Form 1095-A to the original form to determine the nature of the change. For a detailed list of these changes, see Corrected or Voided Form 1095-A. This information can help you assess whether you should file an amended tax return, Form 1040X. If you are uncertain whether you should amend your tax return, you may want to consult with a tax preparer.

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- If you believe the information on your corrected Form 1095-A is incorrect or you have question about the form, you should contact your Marketplace.

Voided Form 1095-A

A voided form--or letter stating your form was voided--generally indicates you previously received a Form 1095-A that was issued in error. This may happen if you did not complete enrollment in Marketplace coverage. The voided Form 1095-A, as the well as the previously received Form 1095-A, should not be used to file your tax return.

- If you receive a voided Form 1095-A after you have already filed your tax return and claimed the premium tax credit using the original Form 1095-A that the Marketplace sent in error, you should file an amended return.
- If you have not yet filed your tax return, don't use the information on the voided or on the previously received Form 1095-A to figure a premium tax credit on Form 8962.
- If you had coverage through the Marketplace and you believe they should not have voided your form, you should contact your Marketplace immediately to receive an accurate Form 1095-A.

Please call if you need assistance filing an amended return or have any questions about Form 1040X.

Qualified Small Business Stock Exclusion

As the driving force in today's economy, small businesses benefit from numerous tax breaks in the tax code. One of these, the Qualified Small Business Stock (QSBS), was just made permanent, thanks to the passage of the PATH Act (Protecting Americans from Tax Hikes Act of 2015). If

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you're a small business investor, here's what you need to know about this often overlooked tax break.

What is the Qualified Small Business Stock (QSBS) Exclusion?

Sometimes referred to as Section 1202 (after Section 1202 of the Internal Revenue Code, PATH made permanent for taxpayers (excluding corporations) the exclusion of 100 percent of the gain on the sale or exchange of qualified small business stock (QSBS) acquired after September 27, 2010, that is held longer than five years.

Further, QSBS gain excluded from income is not subject to 3.8 percent Obamacare tax on "Net Investment Income" from capital gains (and other investment income) on high-income taxpayers.

The definition of a qualified small business under the IRS varies; however, examples of businesses that do NOT qualify include, but are not limited to:

- A regulated investment company,
- A real estate investment trust (REIT)
- One involving services performed in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, or brokerage services;
- Any business of operating a hotel, motel, restaurant, or similar business.
- Any farming business (including the business of raising or harvesting trees).

What are the Tax Benefits of QSBS?

Two tax provisions apply to gain from the sale or trade of qualified small business stock. Taxpayers may qualify for a tax-free rollover of all or part of the gain, or they may be able to exclude gain from income.

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What is Qualified Small Business Stock?

Qualified small business stock is stock that meets all of the following tests:

1. It must be stock in a C corporation.
2. It must have been originally issued after August 10, 1993.
3. The corporation must have total gross assets of $50 million or less at all times after August 9, 1993, and before it issued the stock. Its total gross assets immediately after it issued the stock must also be $50 million or less.
4. When figuring the corporation's total gross assets, you must also count the assets of any predecessor of the corporation. In addition, you must treat all corporations that are members of the same parent-subsidiary controlled group as one corporation.
5. You must have acquired the stock at its original issue, directly or through an underwriter, in exchange for money or other property (not including stock), or as pay for services provided to the corporation (other than services performed as an underwriter of the stock). In certain cases, your stock may also meet this test if you acquired it from another person who met this test, or through a conversion or trade of qualified small business stock that you held.
6. The corporation must have met the active business test, defined next, and must have been a C corporation during substantially all the time you held the stock.
7. Within the period beginning two years before and ending two years after the stock was issued, the corporation cannot have bought more than a de minimis amount of its stock from you or a related party.
8. Within the period beginning one year before and ending one year after the stock was issued, the corporation cannot have bought more than a de minimis amount of its stock from anyone, unless

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the total value of the stock it bought is five percent or less of the total value of all its stock.

Qualified stock must also meet the active business test and it can't be an investment vehicle or an inactive business. A corporation meets this test for any period of time if, during that period, both the following are true:

- It was an eligible corporation, defined below.
- It used at least 80 percent (by value) of its assets in the active conduct of at least one qualified trade or business.

Questions?

The QSBS exclusion, as with many tax provisions, is complicated. Don't hesitate to call if you have any questions or would like more information on this topic.

Tips for Taxpayers with Foreign Income

If you are living or working outside the United States, you generally must file and pay your tax in the same way as people living in the U.S. This includes people with dual citizenship.

In addition, U.S. taxpayers with foreign accounts exceeding certain thresholds may be required to file Form 114, known as the "FBAR" as well as Form 8938, also referred to as "FATCA."

Note: FBAR is not a tax form, but is due to the Treasury Department by June 30, 2016, and must be filed electronically through the BSA E-Filing System website.
FATCA (Form 8938) is submitted on the tax due date (including extensions, if any,) of your income tax return.
Here's what else you need to know about reporting foreign income:

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1. Report Worldwide Income. By law, Americans living abroad, as well as many non-U.S. citizens, must file a U.S. income tax return and report any worldwide income. Some key tax benefits, such as the foreign earned income exclusion, are only available to those who file U.S. returns.

2. Report Foreign Accounts and Assets. Federal law requires U.S. citizens and resident aliens to report any worldwide income, including income from foreign trusts and foreign bank and securities accounts.

3. File Required Tax Forms. In most cases, affected taxpayers need to file Schedule B, *Interest and Ordinary Dividends*, with their tax returns. Part III of Schedule B asks about the existence of foreign accounts, such as bank and securities accounts, and usually requires U.S. citizens to report the country in which each account is located.

Some taxpayers may need to file additional forms with the Treasury Department such as Form 8938, *Statement of Specified Foreign Financial Assets* or FinCEN Form 114 (formerly TD F 90-22.1), *Report of Foreign Bank and Financial Accounts ("FBAR")*.

FBAR. Taxpayers with foreign accounts whose aggregate value exceeded $10,000 at any time during 2015 (or 2016) must file a Treasury Department FinCEN Form 114 (formerly TD F 90-22.1), *Report of Foreign Bank and Financial Accounts ("FBAR")*.

Form 8938. Generally, U.S. citizens, resident aliens, and certain nonresident aliens must report specified foreign financial assets on Form 8938, *Statement of Specified Foreign Financial Assets* if the aggregate value of those assets exceeds certain thresholds:

- If the total value is at or below $50,000 at the end of the tax year, there is no reporting requirement for the year, unless the total value was more than $75,000 at any time during the tax year

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- Taxpayers who do not have to file an income tax return for the tax year do not have to file Form 8938, regardless of the value of their specified foreign financial assets.

The threshold is higher for individuals who live outside the United States and thresholds are different for married and single taxpayers. In addition, penalties apply for failure to file accurately.

Please contact the office if you need additional information about thresholds for reporting, what constitutes a specified foreign financial asset, how to determine the total value of relevant assets, what assets are exempted and what information must be provided.

Note: An individual may have to file both forms, and separate penalties may apply for failure to file each form.

4. Review the Foreign Earned Income Exclusion. Many Americans who live and work abroad qualify for the foreign earned income exclusion when they file their tax return. This means taxpayers who qualify will not pay taxes on up to $101,300 of their wages and other foreign earned income they received in 2016 ($100,800 in 2015). Please contact the office if you have any questions about foreign earned income exclusion.

5. Don't Overlook Credits and Deductions. Taxpayers may be able to take either a credit or a deduction for income taxes paid to a foreign country. This benefit reduces the taxes these taxpayers pay in situations where both the U.S. and another country tax the same income. However, you cannot claim the additional child tax credit if you file Form 2555, *Foreign Earned Income* or Form 2555-EZ, *Foreign Earned Income Exclusion*.

6. Automatic Extension. U.S. citizens and resident aliens living abroad on April 18, 2016, qualified for an automatic two-month extension (until June 15) to file their 2015 federal income tax returns. The extension of time to file also applies to those serving in the military outside the U.S. Taxpayers must attach a statement to their returns explaining why they

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qualify for the extension. Please call if you haven't filed a 2015 tax return.

7. Get Tax Help. If you're a taxpayer or resident alien living abroad that needs help with tax filing issues, IRS notices, and tax bills, or have questions about foreign earned income and offshore financial assets in a bank or brokerage account, don't hesitate to call.

Tax Breaks for Hiring New Employees

If you're thinking about hiring new employees this year, you won't want to miss out on these tax breaks.

1. Work Opportunity Credit

The Work Opportunity Tax Credit (WOTC) is a federal tax credit for employers that hire employees from the following targeted groups of individuals:

- A member of a family that is a Qualified Food Stamp Recipient
- A member of a family that is a Qualified Aid to Families with Dependent Children (AFDC) Recipient
- Qualified Veterans
- Qualified Ex-Felons, Pardoned, Paroled or Work Release Individuals
- Vocational Rehabilitation Referrals
- Qualified Summer Youths
- Qualified Supplemental Security Income (SSI) Recipients
- Qualified Individuals living within an Empowerment Zone or Rural Renewal Community
- Long Term Family Assistance Recipient (TANF) (formerly known as Welfare to Work)

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The tax credit (a maximum of $9,600) is taken as a general business credit on Form 3800 and is applied against tax liability on business income. It is limited to the amount of the business income tax liability or social security tax owed. Normal carry-back and carry-forward rules apply.

For qualified tax-exempt organizations, the credit is limited to the amount of employer social security tax owed on wages paid to all employees for the period the credit is claimed.

Also, an employer must obtain certification that an individual is a member of the targeted group before the employer may claim the credit.

Note: The Protecting Americans from Tax Hikes Act of 2015 (the PATH Act) retroactively allows eligible employers to claim the Work Opportunity Tax Credit (WOTC) for all targeted group employee categories that were in effect prior to the enactment of the PATH Act, if the individual began or begins work for the employer after December 31, 2014 and before January 1, 2020.
For tax-exempt employers, the PATH Act retroactively allows them to claim the WOTC for qualified veterans who begin work for the employer after December 31, 2014, and before January 1, 2020.

2. Empowerment Zones

This tax credit provides businesses with an incentive to hire individuals who live and work (either full-time or part-time) in a federally designated Empowerment Zone (EZ). The credit is equal to 20 percent of the first $15,000 (up to $3,000) in wages earned in a taxable year if the employee lives ***and*** works in an empowerment zone (urban or rural). This credit can be combined with state enterprise zone credits as well.

Note: The PATH Act extended the tax credit retroactively to apply to the period from January 1, 2015, through December 31, 2016.

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3. Disabled Access Credit and the Barrier Removal Tax Deduction

Employers that hire disabled workers might also be able to take advantage of two additional tax credits in addition to the WOTC.

The Disabled Access Credit is a non-refundable credit for small businesses that incur expenditures for the purpose of providing access to persons with disabilities. An eligible small business is one that earned $1 million or less or had no more than 30 full-time employees in the previous year; they may take the credit each and every year they incur access expenditures. Eligible expenditures include amounts paid or incurred to:

1. Remove barriers that prevent a business from being accessible to or usable by individuals with disabilities;
2. Provide qualified interpreters or other methods of making audio materials available to hearing-impaired individuals;

3. Provide qualified readers, taped texts, and other methods of making visual materials available to individuals with visual impairments; or

4. Acquire or modify equipment or devices for individuals with disabilities.

The Architectural Barrier Removal Tax Deduction encourages businesses of any size to remove architectural and transportation barriers to the mobility of persons with disabilities and the elderly. Businesses may claim a deduction of up to $15,000 a year for qualified expenses for items that normally must be capitalized. Businesses claim the deduction by listing it as a separate expense on their income tax return.

Businesses may use the Disabled Tax Credit and the architectural/transportation tax deduction together in the same tax year if the expenses meet the requirements of both sections. To use both, the deduction is equal to the difference between the total expenditures and the amount of the credit claimed.

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4. Indian Employment Credit

The Indian Employment Credit provides businesses with an incentive to hire certain individuals (enrolled members of an Indian tribe or the spouse of an enrolled member) who live on or near an Indian reservation. The business does not have to be in an empowerment zone or enterprise community to qualify for the credit, which offsets the business's federal tax liability.

The credit is 20 percent of the excess of the current qualified wages and qualified employee health insurance costs (not to exceed $20,000) over the sum of the corresponding amounts that were paid or incurred during the calendar year of 1993 (not a typo).

5. State Tax Credits

Many states use tax credits and deductions as incentives for hiring and job growth. Employers are eligible for these credits and deductions when they create new jobs and hire employees that meet certain requirements. Examples include the New Employment Credit (NEC) in California and Empire Zone tax credits in New York.

Wondering what tax breaks your business qualifies for?

Help is just a phone call away!

What is the Additional Medicare Tax?

Some taxpayers may be required to pay an Additional Medicare Tax if their income exceeds certain limits. Here are some things that you should know about this tax:

1. Tax Rate. The Additional Medicare Tax rate is 0.9 percent.

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2. Income Subject to Tax. The tax applies to the amount of certain income that is more than a threshold amount. The types of income include your Medicare wages, self-employment income, and railroad retirement (RRTA) compensation. If you're not sure if you have income subject to these rules, please call the office.

3. Threshold Amount. You base your threshold amount on your filing status. If you are married and file a joint return, you must combine your spouse's wages, compensation or self-employment income with yours. Use the combined total to determine if your income exceeds your threshold. The threshold amounts are:

- Married filing jointly: $250,000
- Married filing separately: $125,000
- Single: $200,000
- Head of household: $200,000

3. Withholding/Estimated Tax. Employers must withhold this tax from your wages or compensation when they pay you more than $200,000 in a calendar year. If you are self-employed you should include this tax when you figure your estimated tax liability.

4. Underpayment of Estimated Tax. If you had too little tax withheld, or did not pay enough estimated tax, you may owe an estimated tax penalty. For more on this, please call.

5. Form 8959. If you owe this tax, file Form 8959, *Additional Medicare Tax*, with your tax return. You also report any Additional Medicare Tax withheld by your employer on Form 8959.

Questions?

If you have any questions about the Additional Medicare Tax, help is just a phone call away.

Tax Tips for Deducting Losses from a Disaster

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If you suffer damage to your home or personal property, you may be able to deduct the losses you incur on your federal income tax return. Here are 10 tax tips you should know about regarding casualty loss deductions:

1. Casualty loss. You may be able to deduct losses based on the damage done to your property during a disaster. A casualty is a sudden, unexpected or unusual event. This may include natural disasters like hurricanes, tornadoes, floods and earthquakes. It can also include losses from fires, accidents, thefts or vandalism.

2. Normal wear and tear. A casualty loss does not include losses from normal wear and tear. It does not include progressive deterioration from age or termite damage.

3. Covered by insurance. If you insured your property, you must file a timely claim for reimbursement of your loss. If you don't, you cannot deduct the loss as a casualty or theft. You must reduce your loss by the amount of the reimbursement you received or expect to receive.

4. When to deduct. As a general rule, you must deduct a casualty loss in the year it occurred. However, if you have a loss from a federally declared disaster area, you may have a choice of when to deduct the loss. You can choose to deduct the loss on your return for the year the loss occurred or on an amended return for the immediately preceding tax year. Claiming a disaster loss on the prior year's return may result in a lower tax for that year, often producing a refund.

5. Amount of loss. You figure the amount of your loss using the following steps:

- Determine your adjusted basis in the property before the casualty. For property you buy, your basis is usually its cost to you. For property you acquire in some other way, such as inheriting it or

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getting it as a gift, you must figure your basis in another way. Please call if you have any questions.

- Determine the decrease in fair market value, or FMV, of the property as a result of the casualty. FMV is the price for which you could sell your property to a willing buyer. The decrease in FMV is the difference between the property's FMV immediately before and immediately after the casualty.
- Subtract any insurance or other reimbursements you received or expect to receive from the smaller of those two amounts.

6. $100 rule. After you have figured your casualty loss on personal-use property, you must reduce that loss by $100. This reduction applies to each casualty loss event during the year. It does not matter how many pieces of property are involved in an event.

7. 10 percent rule. You must reduce the total of all your casualty or theft losses on personal-use property for the year by 10 percent of your adjusted gross income.

8. Future income. Do not consider the loss of future profits or income due to the casualty as you figure your loss.

9. Form 4684. Complete Form 4684, *Casualties and Thefts*, to report your casualty loss on your federal tax return. You claim the deductible amount on Schedule A,*Itemized Deductions*.

10. Business or income property. Some of the casualty loss rules for business or income property are different than the rules for property held for personal use.

Please call if you have any questions about deducting casualty losses from a disaster.

A Name Change Could Affect your Taxes

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Did you know that a name change could impact your taxes? Here's what you need to know:

1. Report Name Changes. Did you get married and are now using your new spouse's last name or hyphenate your last name? Did you divorce and go back to using your former last name? In either case, you should notify the SSA of your name change. That way, your new name on your IRS records will match up with your SSA records. A mismatch could unexpectedly increase a tax bill or reduce the size of any refund.

2. Make Dependent's Name Change. Notify the SSA if your dependent had a name change. For example, this could apply if you adopted a child and the child's last name changed. If you adopted a child who does not have a Social Security number, you may use an Adoption Taxpayer Identification Number on your tax return. An ATIN is a temporary number. You can apply for an ATIN by filing Form W-7A, *Application for Taxpayer Identification Number for Pending U.S. Adoptions*, with the IRS.

3. Get a New Card. File Form SS-5, *Application for a Social Security Card*, to notify SSA of your name change. You can get the form onSSA.gov or call 800-772-1213 to order it. Your new card will show your new name with the same SSN you had before.

4. Report Changes in Circumstances when they happen. If you enrolled in health insurance coverage through the Health Insurance Marketplace you may receive the benefit of advance payments of the premium tax credit. These are paid directly to your insurance company to lower your monthly premium. Report changes in circumstances, such as a name change, a new address and a change in your income or family size to your Marketplace when they happen throughout the year. Reporting the changes will help you avoid getting too much or too little advance payment of the premium tax credit.

If you have any questions related to IRS requirements regarding a name change, please call.

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Tax Tips for Students with a Summer Job

Is your child a student with a summer job? Here's what you should know about the income your child earns over the summer.

1. All taxpayers fill out a W-4 when starting a new job. This form is used by employers to determine the amount of tax that will be withheld from your paycheck. Taxpayers with multiple summer jobs will want to make sure all their employers are withholding an adequate amount of taxes to cover their total income tax liability. If you have any questions about whether your child's withholding is correct, please call the office.
2. Whether your child is working as a waiter or a camp counselor, he or she may receive tips as part of their summer income. All tip income is taxable and is, therefore, subject to federal income tax.
3. Many students do odd jobs over the summer to make extra cash. If this is your child's situation, keep in mind that earnings received from self-employment are also subject to income tax. This includes income from odd jobs such as babysitting and lawn mowing.
4. If your child has net earnings of $400 or more from self-employment or church employee income of $108.28, he or she also has to pay self-employment tax. This tax pays for benefits under the Social Security system. Social Security and Medicare benefits are available to individuals who are self-employed just as they are to wage earners who have Social Security tax and Medicare tax withheld from their wages. The self-employment tax is figured on Form 1040, Schedule SE.
5. Subsistence allowances paid to ROTC students participating in advanced training are not taxable. However, active duty pay--such as pay received during summer advanced camp--is taxable.

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6. Special rules apply to services performed as a newspaper carrier or distributor. As direct seller, your child is treated as being self-employed for federal tax purposes if the following conditions are met:
    - Your child is in the business of delivering newspapers.
    - All pay for these services directly relates to sales rather than to the number of hours worked.
    - Delivery services are performed under a written contract which states that your child will not be treated as an employee for federal tax purposes.
7. Generally however, newspaper carriers or distributors under age 18 are not subject to self-employment tax.

A summer work schedule is sometimes a patchwork of odd jobs, which makes for confusion come tax time. Contact the office if you have any questions at all about income your child earned this summer season.

What to do if you get a Letter from the IRS

Each year, the IRS mails millions of notices and letters to taxpayers for a variety of reasons. If you receive correspondence from the IRS here's what to do:

Don't panic. You can usually deal with a notice simply by responding to it. Most IRS notices are about federal tax returns or tax accounts.

Each notice has specific instructions, so read your notice carefully because it will tell you what you need to do.

Your notice will likely be about changes to your account, taxes you owe or a payment request. However, your notice may ask you for more information about a specific issue.

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If your notice says that the IRS changed or corrected your tax return, review the information and compare it with your original return. If you agree with the notice, you usually don't need to reply unless it gives you other instructions or you need to make a payment.

If you don't agree with the notice, you need to respond. Write a letter that explains why you disagree and include information and documents you want the IRS to consider. Mail your response with the contact stub at the bottom of the notice to the address on the contact stub. Allow at least 30 days for a response.

For most notices, there is no need to call or visit a walk-in center. If you have questions, call the phone number in the upper right-hand corner of the notice. Be sure to have a copy of your tax return and the notice with you when you call. If you need assistance understanding an IRS Notice or letter, don't hesitate to call the office.

Always keep copies of any notices you receive with your tax records.

Be alert for tax scams. The IRS sends letters and notices by mail and does **NOT**contact people by email or social media to ask for personal or financial information. If you owe tax, please call to find out what your options are.

Tax Due Dates for June 2016

June 10

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

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Individuals - If you are a U.S. citizen or resident alien living and working (or on military duty) outside the United States and Puerto Rico, file Form 1040 and pay any tax, interest, and penalties due. (U.S. citizens living in the U.S. should have paid their taxes on April 18.) If you want additional time to file your return, file Form 4868 to obtain 4 additional months to file. Then file Form 1040 by October 17. However, if you are a participant in a combat zone, you may be able to further extend the filing deadline.

Individuals - Make a payment of your 2016 estimated tax if you are not paying your income tax for the year through withholding (or will not pay enough tax that way). Use Form 1040-ES. This is the second installment date for estimated tax in 2016.

Corporations - Deposit the second installment of estimated income tax for 2016. A worksheet, Form 1120-W, is available to help you estimate your tax for the year.

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

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

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