KAKENMASTER REPORT

A Newsletter from Kakenmaster & Associates and Libertyville Insurance Agency

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Thank You

Dear Clients:

Kakenmaster and Associates would like to thank you for choosing us as your tax preparer. We value the trust and confidence that you have placed in us and appreciate your business.

This issue of the *Kakenmaster Report* highlights the new 529A account, 2015 tax updates, and information on a new initiative for combating tax refund fraud.

As a year-round tax service, we are available to answer any questions regarding the issues covered in this newsletter, as well as other tax questions that may arise throughout the year. Please feel free to contact us if you have any questions.

Again, thank you for choosing Kakenmaster and Associates.

Sincerely,
Peter Kakenmaster

When is the 2016 Tax Day?
Next year, taxes will not be due on April 15, 2015, because it falls on a Friday, which is the Emancipation Day holiday observed in Washington D.C. Therefore, the tax due date is **Monday, April 18**, except for tax filers in Maine and Massachusetts. These two states have until **Tuesday, April 19** because they observe Patriot's Day on Tuesday, April 19.

New Legislation Establishes Savings Plans for Individuals with Disabilities

On December 19, 2014, Congress passed the *Stephen Beck, Jr., Achieving a Better Life Experience Act of 2014* (ABLE Act) as part of the Tax Increase Prevention Act of 2014 (P.L. 113-295). This will allow families of individuals with disabilities to build much-needed savings to pay for disability-related expenses.

According to the IRS, the ABLE Act permits a state to establish and maintain a new type of tax-advantaged savings program (under Section 529A of the Internal Revenue Code) for people with disabilities who became disabled before age 26. Contributions may be made to a 529A account that is established for purposes of meeting the qualified disability expenses of the designated beneficiary of the account who is a resident of that state or of a contracting state. The beneficiary of the account must be the owner of the account. If the beneficiary does not have signature authority, the person who does must administer the account but cannot have an interest in the account.

Contributions in a total amount up to the annual gift tax exclusion amount, currently $14,000, can be made to an ABLE account on an annual basis, and distributions are tax-free if used to pay qualified disability expenses. Expenses that help a person maintain or improve health, independence and quality of life as they relate to the designated beneficiary's blindness or disability will be considered qualifying expenses. These expenses may include housing, education, transportation, health prevention and wellness, employment training and support, assistive technology and personal support services and other expenses.

529A Accounts Can Grow Up to $100,000 before Affecting SSI Eligibility

Individuals with disabilities often rely on public benefits for needed health care, food, housing and income. In order to qualify for these benefits, a means or asset

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Financial, Insurance, and Real Estate Services for Businesses and Individuals

Medicare & Mileage Rates

Medicare Premiums:
For 2015 the basic Medicare Part B premium will stay at $104.90 per month. Seniors with adjusted gross incomes for 2013 that exceeded $170,000 for couples, and $85,000 for singles, will pay a surcharge for part B and D premiums. The total surcharges may be as high as $301.60 per month.

Medicare Surtax:
For 2015, the additional 0.9% Medicare surtax is applied to all wages above $200,000, for singles, $250,000 for those filing jointly, and $125,000 if married, but filing separately.

2015 Mileage Rates:
Standard rate for business driving: 57.5¢ per mile (an increase of 1.5¢ per mile). If the standard rate is used, the vehicle depreciation rate decreases to 23¢ per mile. *Medical and moving rates:* 23¢ per mile (a decrease of .5¢ per mile). *Charitable driving:* 14¢ per mile.

ABLE Accounts cont'd...

test on Social Security Income (SSI), Social Security Disability Insurance (SSDI) and other programs is conducted. In order to qualify for public benefits, individuals with disabilities could not accumulate more than $2,000 in savings. The new legislation allows a 529A account to grow up to $100,000 before it begins impacting an individual's eligibility for SSI (limits will be adjusted annually for inflation).

The Illinois General Assembly passed SB 1383 this spring, which established legislation for an Illinois ABLE Account Program. The Illinois State Treasurer will administer the program. For the first time, individuals with disabilities have the opportunity to build the savings necessary for real financial security.

Please feel free to contact Kakenmaster & Associates with any questions you may have regarding this new program.

Thank You!

We would like to say thank you once again for trusting us as your tax preparer. We would also like the opportunity to serve your friends and family. This referral coupon is good for $30.00 off tax consultation services to any new tax clients. As a thank you for your referral, we will also send you a $30.00 thank you check. Thank you for choosing and recommending Kakenmaster & Associates to your family and friends.

New Client Coupon

This referral coupon is good for a **$30.00 discount** on a tax consultation.

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2015 Tax Updates

American Opportunity Tax Credit for College Tuition: Keep in mind that you are only eligible for the American Opportunity Tax Credit for the year in which you paid the tuition, not in the year the courses are taken.

Paying Tuition as a Gift: If a taxpayer gives more than $14,000 in cash, property or gifts to anyone in a given year, they must report the gift on Form 709. However, if a grandparent or other individual chooses to help a student with college expenses and makes a tuition payment directly to the school, this amount is not counted towards the $14,000 gift tax exclusion. This then allows additional gifts to be made to the student up to $14,000 for other expenses before incurring a gift tax.

Contributions to Pension and Profit Sharing Plans: Businesses or contract workers can file an extension if they plan on funding their pension or profit sharing plans after the normal March 15 corporate tax deadline. The IRS will allow contributions to be made until September 15, or up to six months after the business tax deadline.

Dividend Payouts: The tax rules allow most businesses to retain up to $250,000 before they are required to pay out dividends ($150,000 for personal service corporations) in order to escape the accumulated earnings tax. The accumulated earnings tax is a tax imposed by the federal government upon companies with retained earnings deemed to be unreasonable and in excess of what is considered ordinary.

Roth IRA Contributions: The phase out adjusted gross income (AGI) levels for a Roth IRA has increased to $193,000 from $183,000 for couples, and to $131,000 from $116,000 for singles. The contribution cap remains at $5,500 and $6,500 for those 50 years or older.

Traditional IRA Contributions: For traditional IRAs, the phase out levels increased to $118,000 from $98,000 for couples, and to $71,000 from $61,000 for singles. Also, if only one spouse is covered by a plan, the phase out range for deducting a contribution is between $183,000 - $193,000 (AGI). The contribution cap is the same as the Roth IRA.

401(k), 403(b), Most 457 Plans: The maximum contribution level increased to $18,000, from $17,500 in 2014. The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), and most 457 plans increased from $5,500 to $6,000.

SIMPLE Retirement Plans: The maximum contribution increases to $12,500, and $15,500 for individuals 50 years and older.

Capital Gains Changes When in a Nursing Home: The tax laws allow for individuals to exclude up to $250,000 of capital gains from taxes, and married couples up to $500,000, if they meet the use test. To qualify for the exemption, homeowners must have owned or lived in the residence for a total of two out of the last five years prior to the sale. However, for those who end up living in a nursing home, the requirement is decreased to only one out of the last five years.

Tax Reform and ACA Update

Rubio-Lee Tax Reform Proposal

It is very unlikely that there will be any sweeping changes to the tax code before the next presidential election, but one of the proposals that has a little more traction than others is the Rubio-Lee (U.S. Senators from Florida and Utah, respectively) Economic Growth and Family Fairness Tax Reform Plan. Some of the proposals in this tax plan include a 25% tax rate on all business income for S firms, partnerships, LLCs that are part of a 1040 tax return, and sole proprietors. The plan eliminates the depreciation rules, proposing the full expensing of business investments, including buildings, land and inventory. It also proposes that U.S. businesses with foreign operations will no longer be double-taxed. Businesses now pay taxes in the country of their foreign operations and then incur an additional U.S. tax on this income. The Senators have also included a new $2,500 per-child credit to offset the parent penalty. The plan also proposes retaining the deductions for mortgage interest and charitable contributions. The Rubio-Lee proposal is just one of the many proposals that Congress will undoubtedly be wrestling with in the future as rewriting the tax code continues to be examined.

King v. Burwell Decision on the ACA

On June 25, 2015, the U.S Supreme Court affirmed the decision of the Fourth Circuit 6-3 in *King v. Burwell*, which continues to allow low- and moderate-income individuals in all states to be eligible for tax subsidies to buy health plans through Affordable Care Act (ACA) insurance marketplaces.

Home Office and Small Business Deductions

The IRS allows for a home office deduction on the condition that it has to be used exclusively for conducting business. For example, if you use an extra room to run your business, you can take a home office deduction for that extra room. However, if this room is also used for other purposes, you cannot claim the deduction. Also, if you go to a place of employment every day but perhaps check emails after hours or work on some files at home, this does not qualify your "home office" for the deduction.

However, according to the IRS if you conduct business at a location outside of your home, but also use your home substantially and regularly to conduct business, you may qualify for a home office deduction. For example, if you have in-person meetings with patients, clients or customers in your home in the normal course of your business, even though you also carry on business at another location, you can deduct your expenses for the part of your home used exclusively and regularly for business. The IRS also allows you to deduct expenses for a separate free-standing structure, such as a studio, garage or barn, if you use it exclusively and regularly for your business. The structure does not have to be your principal place of business or the only place where you meet patients, clients or customers.

Expensing Business Assets

The 2015 cap on expensing assets is currently at $25,000. If Congress does not pass new legislation in 2015, most expect that President Obama will use his authority to return the cap to $500,000 before year end, and then up to $1 million in 2016. In 2014, businesses could deduct up to $500,000 in equipment purchases as long as they spent less than $2 million on equipment.

Also announced in President Obama's 2016 budget, businesses (including farm corporations) with annual gross incomes of $25 million or less would be allowed to use the cash accounting system even if they have inventory. Note that this benefit is not extended to personal service corporations.

If you have questions on either one of these deductions, please feel free to contact Kakenmaster & Associates for additional information.

Identity Theft Refund Fraud

The Treasury Department recently announced that it lost an estimated $5.8 billion in tax refunds to fraudulent returns in the 2013 tax-filing season. This continues to be a concern, and at Kakenmaster & Associates, we have seen a significant increase in our clients being the victims of identity theft refund fraud. When filing a claim, we are notified that someone else has already filed a claim under that Social Security Number, and steps are then needed to reconcile the situation.

This past June, the IRS announced sweeping new collaborative efforts to combat identity theft refund fraud and protect the nation's taxpayers. The efforts will identify new steps to validate taxpayer and tax return information at the time of filing. According to the IRS, there will be standardized sharing of suspected identity fraud information and analytics from the tax industry to identify fraud schemes and locate indicators of fraud patterns.

"This agreement represents a new era of cooperation and collaboration among the IRS, states and the electronic tax industry that will help combat identity theft and protect taxpayers against tax refund fraud," IRS Commissioner John Koskinen said. "We've made tremendous progress, and we will continue these efforts. Taxpayers filing their tax returns next filing season should have a safer and more secure experience."

This new initiative will also include increased communication to taxpayers in order to raise awareness about the protection of sensitive personal, tax, and financial data to help prevent refund fraud and identity theft. The IRS expects many major system and process changes to be made this summer and fall in order to be ready for the 2016 filing season.

2015 S.S. Updates

The 2015 Social Security (S.S.) wage base is $118,500, an increase from $117,000 in 2014. The FICA rate is 6.2%. The Medicare tax stays at 1.45% for both the employee's and employer's portion. There was only a 1.7% increase in S.S. benefits in 2015 due to low inflation. For people turning 66 in 2015, they will not lose any benefits if their earnings are less than $41,880 before they reach that age. Individuals between ages 62 and 66 by the end of 2015 can earn up to $15,720 before there is a decrease in their benefits, and there is no earnings cap once a beneficiary turns 66.