TaxTips

Keeping You Informed ▪ Summer 2015

ABLE Accounts

New tax-saving opportunities for certain individuals with disabilities

Last December, President Obama signed the Stephen Beck, Jr., *Achieving a Better Life Experience (ABLE) Act* into law. The enactment of ABLE resulted from an eight-year campaign to gain approval for tax-free savings accounts to help individuals and families finance disability needs.

The *ABLE Act* mirrors the provision of a §529 plan (an account used to fund education) and can help families fund an account to ease the expensive burden of caring for someone with disabilities. Each state is responsible for establishing and maintaining an ABLE account. While each state is different and may tweak the logistics, here are some common components of the program:

- Only one ABLE account can be established per individual.
- Earnings grow tax-free.
- Contributions from all family members is limited to $14,000.
- ABLE accounts should generally not be counted for purposes of supplemental social security income, Medicaid or certain other federal programs.
- Funds included in distributions that are not used for qualified expenses are subject to income tax as well as a 10% penalty.
- Earnings are not taxable if used to pay for certain expenses such as housing, transportation, employment training and support, health and wellness, assistive technology and personal support services, legal fees, oversight and monitoring, and funeral and burial costs.

Eligible individuals include those who become disabled before age 26 and either receive Social Security Disability Insurance (SSDI) or SSI, or those who file a disability certification under rules established by their state.

If a state does not establish and maintain its own qualified ABLE program, it may enter into a contract with another state in order to provide its residents with access to a qualified ABLE program.

It's important to note that, similar to §529 plans, an ABLE account does not give you a tax deduction for federal tax purposes, but the income earned is not taxable.

If you have any questions about this opportunity, do not hesitate to contact me.

New Social Security Service

A useful tool for taxpayers

About one third of the people who receive social security benefits have to pay income tax on some of their benefits. At the end of each year, the Social Security Administration mails a Social Security Benefit Statement (SSA-Form 1099) showing the amount of benefits received. Social security beneficiaries who did not receive their SSA-1099 or SSA-1042S, or perhaps lost it, can get an instant and official replacement for tax purposes by creating a "my Social Security account" at ssa.gov.

Health Savings Accounts

Tax savings are available to those who qualify

To better manage escalating costs, many individuals are now choosing health plans with higher deductibles. If you have a qualifying high deductible plan, you may want to consider opening a health savings account (HSA). These accounts provide considerable tax advantages for those who qualify.

An HSA is a tax-exempt trust or custodial account set up with a qualified HSA trustee (typically a bank) to pay or reimburse certain medical expenses incurred by an eligible participant. An HSA does not replace health insurance, but the account holder can use the savings to pay for any out-of-pocket medical expenses. Your employer may help you set up an HSA and make payroll deposits, but you are the actual owner of the account.

An HSA offers several tax advantages over simply putting aside money in a personal checking or savings account. Here are a few highlights:

- Contributions are deductible.
- Employers can make tax-free contributions on behalf of employees.
- Earnings in the account are tax-deferred (some HSA accounts will even let you invest the money you've contributed).
- HSA contributions and earnings are not taxed when distributions are used to pay qualified medical expenses.
- Upon reaching age 65, distributions can be received penalty-free (i.e., only subject to income tax) for any reason.
- An HSA is portable (participants are still entitled to the money in these accounts even if they switch employers).

You can make and deduct HSA contributions for the year at any time before the due date (without extensions) for the filing of your return. For 2015, you can make contributions up until April 15, 2016. Let your HSA custodian know if any contributions you make are intended for the prior year. For example, if you deposit money in January 2016 for a 2015 contribution, you need to inform your bank so they code it properly. Some deposit slips let you indicate this as an option.

Money from the account can be distributed for any qualified unreimbursed medical expenses. Only expenses incurred after the HSA has been established are eligible. Qualified medical expenses include costs to diagnose, cure, mitigate, treat or prevent disease, such as the fees associated with being under the care of a doctor, dentist, chiropractor, psychiatrist or psychologist. Acupuncture, ambulatory bills, birth control pills, child birth classes, contact lenses, crutches, dentures, prescription drugs, eye exams, eye glasses, hearing aids, hospital bills, insulin, laboratory fees, travel to medical clinics, vasectomy and wheelchairs are only some of the items that are considered eligible expenses.

If you are considering switching to a high deductible insurance plan and opening a health savings account, please let me know if I can assist you with any tax-related questions you might have.

Type of Coverage	Annual Deductible Not Less Than	Annual Deductible and Other Out-of-Pocket Expenses Do Not Exceed	Annual HSA Contribution Limit
Self-only	$1,300	$6,450	$3,350
Family	$2,600	$12,900	$6,650

Scholarships and Fellowship Grants

Taxable income or not?

With the price of college increasing every year, scholarships and grants can be a welcome relief. But are there tax consequences to accepting an award?

Typically, qualified scholarships for the purpose of study are excluded from the student's income. "Qualified scholarships" refer to any amount received by an individual as a scholarship or fellowship grant to be used for qualified tuition and related expenses, including:

- Tuition and fees required for the enrollment or attendance of a student at a qualified educational institution.
- Fees, books, supplies and equipment required for courses of instruction at the qualified educational institution.

Any amounts you receive for room and board are not excludable and need to be reported as income on your tax return. You must also include in gross income any amounts received as payment for teaching, research or other services required as a condition for receiving the scholarship or fellowship grant. However, you do not need to include in gross income any amounts you receive for services that are required by the National Health Service Corps Scholarship Program or the Armed Forces Health Professions Scholarship and Financial Assistance Program.

Bottom line: Depending on what the scholarship is used for, it may be subject to tax.

Hiring Household Employees

Are you subject to payroll taxes?

If you have a household employee, such as a housekeeper, maid, babysitter, gardener or anyone else who works in or around your private residence as your employee, you may be required to pay payroll taxes.

Repairmen, plumbers, contractors and other business people who provide their services as independent contractors are not your employees. Household workers are your employees if you can control not only the work they do, but also how and when they do it.

If you pay cash wages of $1,900 or more in 2015 (this threshold can change from year to year) to any one household employee, you generally must withhold 6.2% of social security and 1.45% of Medicare taxes (for a total of 7.65%) from all cash wages you pay to that employee.

You also must pay your share of social security and Medicare taxes, which is also 7.65% of cash wages. Unless you prefer to pay your employee's share of social security and Medicare taxes from your own funds, you should withhold 7.65% from each payment of cash wages made. Cash wages include wages you pay by check, money order, etc.

If you have a household employee, please let me know. I can help you fill out the proper paperwork and meet any tax filing requirements.

Quick Tips

1	The standard deduction rises to $6,300 for singles and married persons filing separate returns and $12,600 for married couples filing jointly. The standard deduction for heads of household rises to $9,250.
2	The limitation for claiming itemized deductions on 2015 individual returns begins with incomes of $258,250 or more ($309,900 for married filing jointly; $284,050 for heads of household; and $154,950 for married filing separately).
3	The personal exemption for tax year 2015 rises to $4,000, up from $3,950 for tax year 2014.
4	The annual exclusion for gifts remains at $14,000 for 2015.
5	The standard mileage rate for business purposes is 57.5¢ per mile (24¢ for depreciation).
6	The standard mileage rate for medical and moving purposes is 23¢ per mile.
7	The standard mileage rate for charitable purposes is 14¢ per mile.

Adopting?

You may be eligible for a tax credit

If you already adopted a child or have simply started the adoption process, you may be eligible for a credit on your 2015 tax return. The credit is limited to the qualified adoption expenses you paid, up to $13,400. In addition, the credit is reduced when your modified adjusted gross income is between $201,010 and $241,010.

The adoption credit is not always claimed in the same year the expenses were paid. It all depends on whether the child is a U.S. citizen or resident when the expense is paid, and when the adoption becomes final.

If the child is a U.S. citizen or resident and the adoption expenses (including those incurred in an unsuccessful effort to adopt an eligible child) are paid during a tax year prior to the tax year in which the adoption is finalized, the credit is allowed in the tax year following the year the expenses were paid. If the child is neither a U.S. citizen nor resident, the credit is allowed only in the year the adoption becomes final.

If an expense is paid for a child (regardless of citizenship status) during or after the year the adoption becomes final, the credit is allowed in the tax year paid or incurred.

If the adoption credit for the year exceeds the income tax for that year, the excess credit is carried forward to the next tax year. No adoption credit can be carried forward to any tax year following the fifth tax year after the year in which the credit is derived. The adoption credit is not a refundable credit for any adoption that occurred after 2011.

If you adopt twins or triplets, you are eligible to claim the tax credit for each child.

Expired Tax Provisions

Will they be renewed?

Once again the following tax provisions have expired:

- $250 educator expense deduction (school teachers who buy school supplies for their classes).
- Tuition and fees deduction for higher education expenses (which helps college students or their parents).
- Itemized deduction for state and local general sales tax (the option to deduct state and local sales taxes instead of deducting state and local income taxes is huge for those who live in states that don't have an income tax, such as Florida and Texas).
- Itemized deduction for mortgage insurance premiums.
- Qualified principal residence indebtedness exclusion for debt discharge income (up to $2 million; usually taxpayers have to pay income taxes on forgiven debt).

It's expected that at the end of this year, many of these provisions will be extended once again. However, you may want to make increased estimated tax payments just in case.

Identity Verification

A legitimate service from the IRS

New IRS scams continue to surface in an attempt to take your money or personal information. Deceitful communications come via phone, email, post and sometimes even a knock on your door. It's important to know that the IRS does occasionally contact taxpayers, but when they do, it's most often by mail.

Sometimes the IRS needs to verify a taxpayer's identity and will do so by sending a Letter 5071C. This occurs when the IRS stops a suspicious tax return that contains a real taxpayer's name and/or social security number but is flagged for identity theft. Taxpayers who receive requests from the IRS to verify their identity should use the Identity Verification Service website at idverify.irs.gov. This is the fastest and easiest way to complete the task. If you receive Letter 5071C, please contact me so that I can help you answer the series of questions about your identity and tax return history.

Once the IRS verifies your identity, you can confirm whether you filed the return in question. If you did not file the return, the IRS can take steps to assist you. If you did file the return, the IRS will need approximately six weeks to process it and issue a refund.

If you receive an email, letter or phone call and you're in doubt as to whether it's from the IRS, contact me so we can determine if the correspondence is real or simply an attempt to steal your identity.