Morrow & Co. LLC
CERTIFIED PUBLIC ACCOUNTANTS

# FEDERAL TAX CHANGES

## STATE AND LOCAL SALES TAX DEDUCTION

For individuals that itemize deductions, the election to claim state and local sales taxes, in lieu of state and local income taxes, has now been made permanent with the act. Without legislation, this election would have expired after December 31, 2014. With this extension, please be sure to notify us of sales taxes paid on larger purchases, such as cars, boats, etc.  This option may provide some benefit for you on you income tax return.

## EDUCATION CREDITS

The act extended for two years the qualified tuition and related expense above the line deduction through the end of 2016 for qualified post-secondary education expenses. Additionally, the act made permanent the American Opportunity Tax Credit for higher education. The maximum credit available is $2,500 with adjusted gross income (AGI) phase-out amounts of $80,000 (single) and $160,000 (married filing jointly).

## TEACHERS' CLASSROOM EXPENSE DEDUCTION

The act makes permanent the above the line deduction for elementary and secondary school teachers' classroom expenses of up to $250. Beginning in 2016, this amount will be indexed for inflation. Additionally, the act includes "professional development expenses" within the scope of the deduction.  We continue to encourage educators to maintain receipts for substantiation of expenses, and ensure that deductions available are realized on the return.

## CHARITABLE DISTRIBUTIONS FROM IRAs

The act makes permanent the provision for individuals age 70 1/2 and older to make tax free distributions from IRAs to a qualified charitable organization with an upper threshold of $100,000 per taxpayer per year. If someone would like to explore this option, please contact us for further discussion.

## PROTECTING AMERICANS FROM TAX HIKES ACT OF 2015

In what has become an annual discussion, congress has once again passed final hour legislation for tax extenders with the Protecting Americans from Tax Hikes Act of 2015 (the act). What is different this year, however, is congress has made many items permanent that historically have been extended on an annual basis. We hope that this will bring some stability to our economy and allow for planning for individuals and businesses to operate on a long term basis, rather than year to year.

## MORTGAGE INSURANCE PREMIUM DEDUCTION

The act extends the treatment of mortgage insurance premiums deductible as interest, subject to AGI phaseout, through 2016. These amounts should be provided on Form 1098 received from the mortgage company.

## ENERGY PROPERTY CREDITS

The act extends energy property tax credits through 2016. This includes adding insulation, energy efficient exterior windows and heating and air conditioning systems. The credit allows for a 10 percent credit of qualifying expenses, capped at $500. The solar investment tax credit and the credit for qualified residential solar property are extended through 2021, but subject to phase down. For those that purchased these items in 2015, investigation should be made with the manufacturer to determine if the purchases qualify for purposes of the credit.

## DEPRECIATION

The act makes permanent the Code Sec. 179 expensing deduction. Currently, the limit is set at $500,000 with a $2 million overall investment before phaseout. Additionally, beginning in 2016, this amount will be indexed for inflation. This provides a great planning opportunity for future capital purchases and expansion. If you wish to discuss future planning, please contact us. Additionally, bonus depreciation for new property (original owner) is extended for a number of years with a phase down schedule. Under this provision, first year depreciation for a class of property would be 50 percent for 2015 through 2017, 40 percent for 2018 and 30 percent 2019. Without any future legislation, the bonus depreciation provision will expire after 2019.

## RESEARCH TAX CREDIT

The act makes permanent the research and development (R&D) tax credit. For those that are working on research activities in their business, discussion should be considered for what qualifies as expenses for purpose of this credit, as well as to ensure that this credit is maximized for tax purposes.

## S-CORP BUILT IN GAINS TAX

The act made permanent the five year recognition period for built in gain following the conversion of a C-corp to an S-corp. For those that wish to convert to an S-corp from a C-corp, careful considerations should be given to this provision.

### HEALTH INSURANCE PROVISIONS

Beginning with the 2015 tax year, many individuals will begin receiving a new form that was not present in prior tax years relating to health insurance coverage. For those that purchased health insurance through the marketplace, a Form 1095-A will be received, as in the prior year, and this information will be necessary for preparing individual tax returns, and calculation of the premium tax credit. For those that are covered by an employer plan, you will most likely receive a Form 1095-B or Form 1095-C, or possibly both. Again, this information will be necessary for preparing individual tax returns, and assessing is there is either a penalty for months in which individuals were not covered by health insurance, or if there is an exception to the penalty.

### CODE SEC. 529 PLANS

The act made permanent the purchase of computer equipment and technology with the distribution from a 529 plan a qualified expense. Kansas will continue to allow a subtraction modification of up to $3,000 per student per year per taxpayer listed on the return.

## KANSAS TAX CHANGES

### KANSAS ITEMIZED DEDUCTIONS

For tax years 2015 and after, Kansas further limits itemized deductions for individuals. The allowable amounts will be limited to 100 percent of qualified charitable contributions, and 50 percent of qualified residence interest and real and personal property taxes. If these amounts are below the Kansas standard deduction threshold, individuals will still be able to utilize the standard deduction on their Kansas return.

### KANSAS TAX ON GUARANTEED PAYMENTS

While Kansas will continue to exempt tax on net income from self employed individuals, S-corporations, partnerships, farmers, rental real-estate, royalties, estates and trusts, they will begin taxing guaranteed payments to partners of partnerships as shown on federal schedule K-1 for Form 1065 (partnerships) beginning with the 2015 tax year.

## OTHER PROVISIONS AND CONSIDERATIONS

### STANDARD MILEAGE RATES

The standard mileage rates for 2015 are 57.5 cents per mile for business mileage, 14 cents per mile for driving for charity and 23 cents per mile for medical and moving expenses. For 2016, the rates are 54 cents per mile for business mileage, 14 cents per mile for driving for charity and 19 cents per mile for medical and moving expenses.

## IRA CONTRIBUTIONS

Traditional IRAs continue to provide an opportunity for tax deduction and tax deferral on the IRA earnings. The maximum combined contributions for Traditional and Roth accounts remains at $5,500 ($6,500 for those age 50 and older) per participant for 2015 and 2016. The contributions are limited to earned income and alimony income. For those that are covered by a retirement plan, deductions may be claimed by individuals with modified adjusted gross income under phase-out ranges of $61,000-$71,000 ($98,000-$118,000 if married filing jointly or qualified widow or widower). If one spouse is covered but one is not, the non-covered spouse may take a deduction if the modified AGI is less than $183,000-$193,000.

IRA contributions may be claimed in 2015 for contributions made in 2015, or up to April 15, 2016.

## DISAPPEARING DEDUCTIONS

A number of years ago, congress began limiting itemized deductions and personal exemptions for higher income returns. Itemized deduction will begin to phase out for individuals with income of $258,250 ($309,900 for married filing jointly) and deductions will be reduced by 3 percent of the amount exceeding the threshold, however not all deductions are subject to the phase out, such as medical and investment interest. Personal exemptions will begin to phase out for individuals with AGI of $258,250 ($309,900 for married filing jointly) and will phase out completely at $380,750 ($432,400 for married filing jointly).

## FORM W-2 AND 1099 REPORTING

Beginning with tax year 2016, Forms W-2 and W-3 filed with the Social Security Administration (SSA) will be due by January 31, 2017. Historically, these were required to be filed with the SSA by the end of February, with the returns to be mailed to individuals by the end of January. Likewise, information returns for Forms 1099 and 1096 filed with the Internal Revenue Service are moved to the same due dates as Forms W-2 and W-3, and will be due by the end of January 2017 for the 2016 tax year.