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Newsletter – Fall 2015

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Fall 2015 Newsletter

This newsletter is coming out well after almost all the leaves have fallen. Maybe a better name for this newsletter would be Thanksgiving newsletter. Anyway this is the second of three newsletters I will send out in 2015. To be honest, there is not a lot going on so finding things that are new is just not going to happen. Yes the penalties and cost for Obama Care are higher this year than they were last year. But for that most of you have already felt the pain of just how much this poorly designed law is costing. If you have paid this tax there is nothing new that will cause you to feel the pain, just more of it. Of course if your tax situation has changed especially with increased income so you have become part of the so called high income group required to fund health care in the United States, you will be joining the group that has been very surprised at just how much that refund has dwindled- if not gone away altogether. Anyway let's not think about that. So in scouring the tax news here is what I have found.

Now we ARE the wizard

Of all of you that grew up with the Wizard of Oz, I wonder just who you identified with in the movie. As a young male I am sure I had more trouble with that than most but now doing this for 31 years the identity is becoming clearer. Back when I started this in 1984 I had many average age people just like us. I am amazed that I still have many average age people just like us but for some reason snow has gathered on all of our roofs. That cogity old guy in the Wizard has now become a very wise and sensible light of guidance for all that are lost. Also just like that where I used to have nobody taking the required minimum distribution from their IRA's- now there are a bunch doing just that. So remember when you reach are 70 1/2 you are required to take a specified amount out of your IRA and this yearly distribution will be required to happen for the rest of your life. In the year you reach 70 1/2 you are allowed to delay the first distribution until April 1st of the next year but every year from then on this must be done by 12/31. Also by waiting till April 1st in that first year will cause you to take two distributions in that year. That could adversely affect your taxes so call me before you do that. The total value of all your IRA's is used to calculate how much you must take out but that full amount can come from any IRA account you choose. If you don't do this the penalties are high. However the IRS by this time has figured out we have all lost our minds and there are ways to get out of that penalty. So if you do forget don't give up. Take the distribution you should have taken and let me know what you did and I will apply to have the penalty removed.

And I wish this would go away with a bucket of water

This was Dorothy's idea to go with a Wizard of Oz theme. Big surprise there huh? When she said it she said the wicked witch would be the IRS but wait I have a better one. This is one who believe it is not, you and the IRS on the same side. Now how many times have you ever said that? The wicked witches are all the people trying to steal your identity. The IRS has called this the biggest problem of our time. As October 20, 2015 the IRS called together groups which included leaders of both state government authorities and tax firms. What was disclosed in the summit was what the IRS is going to do to combat this problem. Part is going to include preparers like me. Our software will contain new identity requirements and validation procedures. There will also be 20 new data checks on returns. One of these will go into a pilot program where W-2's will have a verification code. This is going to be tested for the 2016 tax year by the large payroll firms but could be part of the form by 2017. Now the IRS has said this will not slow down the processing of tax returns but REALLY!!! In my 31 years of doing this I have never seen the IRS take on any additional amount of work and not have it cause a massive slowdown in operations. My guess is there is going to be so much emphasis on me to get those files ready to go that those additional processes alone are going to cause a delay. Maybe not in the actual hands of the IRS but delays none the less. There is also a concern that the do-it-yourself software may go beyond what the typical tax filer will be able to handle. There is also going to be more sharing of information with both state authorities and financial services to make it harder to access this information as it is reflected on a tax return. IRS Commissioner Koskinen has also gone to congress to ask for help. He asked the deadline for W-2's and 1099's be pushed up??? So 30 days is too long now?? But the one thing he didn't ask for is what I would think would be the best way to combat this. Right now I am told the maximum anyone can get for filing a fake tax return is 5 years. What some have made as a result of this would be a heck of a salary for 5 years of waiting to use it. So why not make that 25 years and let's see how excited those wicked witches are. This would include those scammers that call you and tell you the IRS is about to take your first born (for some this could be a good thing) The IRS doesn't work that way and those phone calls are scams. If you want to you can do what I do and when you get one of those calls you can take all of your pent up frustrations for all the telemarketing phone calls you ever got and unload that on these crooks. I am glad to see the IRS putting this problem so high on the priority list but to be honest-much more needs to be done. If you have been one of the unfortunates that have experienced identity theft you know exactly what I am talking about.

If any of them had a brain

Poor scarecrow. That song he sang has given him a bad rap now for over 75 years. But for this I thought it might be fun to see where the presidential candidates stand on taxes.

- Bush - A complete over hall of the tax system by lowering rates across the board, double the standard deduction, eliminate the marriage penalty, end the estate tax, alternative minimum tax and the social security tax for older workers. I guess he never came back from OZ.
- Carson - Has not been pinned down yet except to say the tax law should be fairer, simpler and more equitable. Now this guy sounds like a politician. Says nothing anybody can pin him down with as to how stupid the idea is and at the same time say something everybody loves to hear- no matter how ridiculous. He could get elected.

He also said the tax return should be complete in 15 minutes or less. I have to take a break now. I am getting older and after laughing as hard as I just did I do have to check my under garments.

- Chafee - Raise capital gains to 25% and top tax rate to 45%. Here is an easy one-is this guy a republican or demarcate?
- Christie - Lower the top bracket to 28% and the lowest bracket for poor individuals to a "single digit". To balance the tax break eliminate the deduction for everything except charity and 1 home. No more second home, taxes, medical or any other deduction. While this may make more sense than any other plan how come Reagan made it work with lower brackets and the same deductions as we have now?
- Clinton - Now you better listen. I have been telling people when I do an analysis of future taxes by always qualifying my answer by saying "under current law for capital gains". She wants to set up a schedule of capital gain rates based on holding period for up to 6 years. The rates starts at 39.6% for the shortest holding period to 20% for over 6 years. That should really stimulate capital markets to near zero. Wonder how the stock market will do then? Anyone for a 1500 Dow?

To save space let's just say most republicans want to lower taxes and democrats want to raise them with some notable exceptions.

- Huckabee - National sales tax of 23%.
- Paul - Blow up the tax code and starts over. No, really-that is the title of his website.
- Santorum - Eliminate the IRS but then how are we going to house all of those inmates?

No I have not mentioned Trump or Rubio but there plans are well published. As for the rest, things are being thrown around like flat tax, simpler laws and others promise that could never be kept. Really do any of these people have any kind of brain?

And now down the yellow brick road

Time to go over some changes you might see this year and some planning tips. I just got the published due date for returns from the IRS and it is 4/18/16. I am not sure why this because the 15th is on a Friday. This might be wrong but I doubt it.

As of right now all of those extensions like sales tax, the 250.00 education expense are gone. They have typically been renewed by congress every year but as of right now they have not.

1095-forms for healthcare are now required for filing your tax return.

Refunds may be deposited directly into myra accounts.

The mileage rate for 2015 is 57.5 cents per mile. I am not sure but I may have given out the wrong rate.

Planning tips

Be careful of the 3.8 tax on investment (NII tax) Most of these tips have to do with income shown on the tax return as this tax becomes in affect as you cross the 200k threshold (250K for married) so staying below it is your goal. So the typical suggestion of deferring income if you can, applies. Use of installment sales to spread out capital gains will work as would like-kind exchanges. All of these have been mentioned in tax tips in previous newsletters.

Deductible expense like medical expenses are only a deduction in the year they are paid. But paying by a credit card before the end of the year is considered paid even if the card is not paid off till 2016. So if you think you may have enough medical to get a deduction if you paid it in 2015 try this

Make sure if you have Taxable Spending to make the contribution to the plan so you have this deduction available.

If you are eligible for HSA by 12/1/15 you can make full year's worth of deductible HSA contributions.

And one more thing that doesn't change this year but changes next year the due date for partnership returns have been moved up a month and they will now be due by 15th day of the 3rd month. This also included LLC's that have elected to be filed as a partnership-which are most LLC's.

And finally . . .

The healthcare act is going to provide laughs for years to come as October 23rd the Government Accountability Office, which is the governmental agency that test and sees just how good the government programs works, created 10 fictitious applicants for the credits for the health insurance marketplace and then went to the marketplace to see if they could get the credit. 4 of the false applicants used social security numbers that did not exist and 4 more used number that were already in the system and approved for the credits or Medicare. So how will did this system do in allocating all of that new tax that you are paying on your tax return and protecting that YOUR money is being used as the President promised it would? ALL 10 GOT APPROVED. Whoops. Nice to know your tax \$\$ are being so well taken care of.

That's all for now, Have a great Thanksgiving and there will be one more newsletter before Christmas.

-Tom & Dorothy