tax report

SEPTEMBER 2016

king + company
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Are Your Tax Payments on Track?

You can avoid an unanticipated tax bill in April and a potential underpayment penalty by making sure you're on track with your 2016 tax payments.

How Much?

The total amount of estimated tax you're required to pay depends on your adjusted gross income (AGI) for the previous year. If your 2015 AGI was $150,000 or less ($75,000 or less for a married taxpayer filing separately), you should aim to pay *the lower of*:

- 90% of your 2016 tax liability, or
- 100% of your 2015 tax liability.

If your 2015 AGI was more than $150,000 ($75,000 for a married taxpayer filing separately), you will need to pay *the lower of*:

- 90% of your 2016 tax liability, or
- 110% of your 2015 tax liability.

You won't owe an underpayment penalty if the tax shown on your 2016 return — reduced by withholding taxes paid during the year — is less than $1,000.

Timing

Estimated tax payments generally must be made in four equal quarterly installments. For calendar-year taxpayers, quarterly payments are generally due on the 15th of April, June, September, and January of the following year. If you receive income unevenly (because you have a seasonal business, for example), you may be able to vary the amounts of your payments and still avoid a penalty by using the "annualized income" method.

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Resolving Underpayments

If you discover that you've been underestimating your taxes, it may be possible to resolve the problem by requesting an increase in withholding from your or your spouse's paychecks for the remainder of the year. Alternatively, if you are taking taxable distributions (such as required minimum distributions) from an individual retirement account (IRA), 401(k), or other retirement plan, you could increase the withholding from year-end distributions. With either alternative, the IRS will apply the withheld tax *pro rata* over the tax year to reduce prior underpayments of estimated tax.

> **Example.** A taxpayer makes estimated payments of $2,000 each for the first three installments and plans to pay an additional $2,000 in January. However, in November, she discovers that she actually needed to make estimated payments of $3,000 each. She may correct the problem by paying $3,000 in January and asking her employer to withhold an additional $3,000 from her December paychecks.

Time for a Checkup?

We can project your income tax liability for the year and help you identify potential year-end planning moves that may lower your tax bill. Please contact us for assistance. ■

2017 HSA Limits

Eligible individuals covered by a high-deductible health plan (HDHP) and no other health plan* may use a health savings account (HSA) to set aside funds for future medical needs. Contributions to an HSA are tax deductible (within limits), and distributions are tax exempt when used for qualifying out-of-pocket medical expenses.

The IRS has announced the HSA-related limits that will apply for 2017.

HDHP. A qualifying HDHP must have an annual deductible of at least $1,300 for self-only coverage or $2,600 for family coverage in 2017. Additionally, annual out-of-pocket expenses may not exceed $6,550 for self-only coverage or $13,100 for family coverage.

Contributions. HSA contribution limits will be $3,400 for a person with self-only coverage and $6,750 for a person with family coverage. Eligible individuals 55 or older (and not enrolled in Medicare) may make an additional deductible contribution of $1,000.

* Dental, vision, long-term care, and certain other types of coverage are permitted.

short takes

Small Employer Health Insurance Credit Is Underutilized

The U.S. Government Accountability Office (GAO) recently reported that a relatively low percentage of eligible small employers are claiming the small employer health insurance credit. Originally established under the Affordable Care Act to encourage small employers to set up employee health insurance plans, the credit is available to eligible employers for two consecutive tax years beginning in 2014 or later. Though the GAO reported in 2012 that the number of employers estimated to be eligible to claim the credit ranged from 1.4 million to 4 million, only about 181,000 did so in 2014. Reasons suggested for the underuse include the credit's small size and complexity.

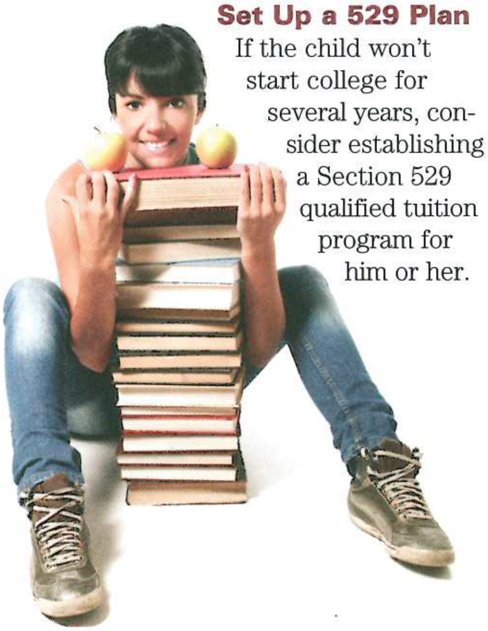
Statistics on Trends in Retiree Income

In April of this year, the Social Security Administration released *Income of the Population 55 or Older, 2014,* detailing trends in retirees' income. Among the findings: For people ages 62-64, 70.1% of total income came from earnings, 19% from retirement benefits (e.g., Social Security, pensions, and annuities), and 7.6% from assets. In contrast, for those 65 and older, 32.2% of income came from earnings, 54.1% from retirement benefits, and 9.7% from assets.

The general information in this publication is not intended to be nor should it be treated as tax, legal, investment, accounting, or other professional advice. Before making any decision or taking any action, you should consult a qualified professional advisor who has been provided with all pertinent facts relevant to your particular situation.

Planning for College Expenses

In 2015, the average cost of tuition, room and board, and related expenses for one year at an in-state public four-year college was $24,061 and nearly double that — or $47,831 — for a private four-year college.* Given these costs, you might want to consider some tax-smart ways to help cover your child's or grandchild's expenses.



Set Up a 529 Plan

If the child won't start college for several years, consider establishing a Section 529 qualified tuition program for him or her. Contributions may be invested, and earnings are tax deferred and ultimately tax free when used to pay qualified education expenses.

Though such contributions count as gifts for gift tax purposes, gifts that do not exceed the annual exclusion amount ($14,000 per individual or $28,000 if made with a spouse in 2016) will not trigger any gift tax consequences. If you want to contribute more than the annual exclusion amount, you may elect to treat the contribution as having been made over a five-year period — effectively using five years' worth of annual exclusions to cover a gift made in one year.

Direct Payment to the School

Once a child is in college, you can make direct tuition payments to the school the child is attending without incurring gift tax. To qualify for this unlimited gift tax exclusion, payments must be made directly to the educational institution and be made *only* for tuition. ■

* *Trends in College Pricing 2015,* The College Board, 2015

Self-employed Health Insurance Deduction

When tax law requirements are met, self-employed individuals are allowed to deduct up to 100% of the premiums they pay to provide health insurance for themselves and their families. Here are the general rules.

What's Deductible?

Deductible expenses include amounts paid for medical insurance (including dental and qualified long-term care insurance) for the self-employed individual, his or her spouse, dependents, and any child who has not attained age 27 by the end of the year. Qualifying expenses include premiums only, not out-of-pocket costs that aren't covered by insurance.

The deduction is not available for premiums paid for any calendar month in which the self-employed person is otherwise eligible to participate in a subsidized health plan maintained by an employer. The deduction cannot exceed the individual's earned income from the trade or business for which the health plan was established.

Are You Eligible?

Sole proprietors, general partners, limited partners receiving guaranteed payments, and more-than-2% S corporation shareholders receiving wages from the corporation can potentially qualify for the deduction. The health insurance plan must be established under your business. However, IRS rules do allow sole proprietors, partners, and 2% shareholders to purchase the policy in either their own or the business's name. (Additional requirements apply.)

Claiming the Deductions

Though it is a business expense, the deduction is not claimed on Schedule C. Instead, it is claimed on the front of Form 1040 as a favorable "above-the-line" deduction — i.e., one that reduces adjusted gross income. As such, it may enable you to qualify for other tax deductions and/or credits. ■

Excluding Gain from a Home Sale

Homeowners may exclude as much as $250,000/$500,000 (single/married filing jointly) of gain from the sale of their principal residence, and they may do so as frequently as every two years. The exclusion is a significant tax benefit for taxpayers who qualify to take advantage of it.

Basics

Single taxpayers may qualify to exclude gain of up to $250,000 if they owned and used the home as their principal residence for at least two of the five years before the sale. Similarly, married couples who file jointly may exclude up to $500,000 of gain, provided that at least one of the spouses owned the home for two of the previous five years and both spouses used it as a principal residence for two of the previous five years.

A single taxpayer generally may use the exclusion for a sale only every two years. A married couple may use it only if neither individual used the exclusion within the two-year period prior to the sale date.

A surviving spouse may qualify for the $500,000 exclusion if (1) the sale occurs not later than two years after the other spouse's death, (2) the requirements for the $500,000 exclusion were met immediately before the spouse's death, and (3) the surviving spouse hasn't remarried as of the date of the sale.

Reduced Exclusions

Reduced exclusions are allowed if the taxpayer is unable to meet the full two-year ownership and use requirements or has already used the exclusion for a sale of a principal residence in the previous two years, *provided* the primary reason for the premature sale was a change in place of employment, a health condition, or "unforeseen circumstances."

The IRS has provided "safe harbor" guidance for these exceptions:

Work related — The sale occurred during the period the seller used the property as his principal residence and the new place of employment is at least 50 miles farther from the home than the old place of employment.

Physician's recommendation — A doctor recommended a change of residence for reasons of diagnosis, treatment, etc., for a medical condition of a qualified person.

Unforeseen circumstances — A qualifying event (e.g., natural disaster, death of a qualified person) occurs that could not reasonably have been anticipated before the home was purchased and occupied.

The reduced exclusion is calculated by dividing the period of qualifying use by the required two-year period For example, a single person with one year of qualified use and ownership could claim half of the applicable $250,000 exclusion.

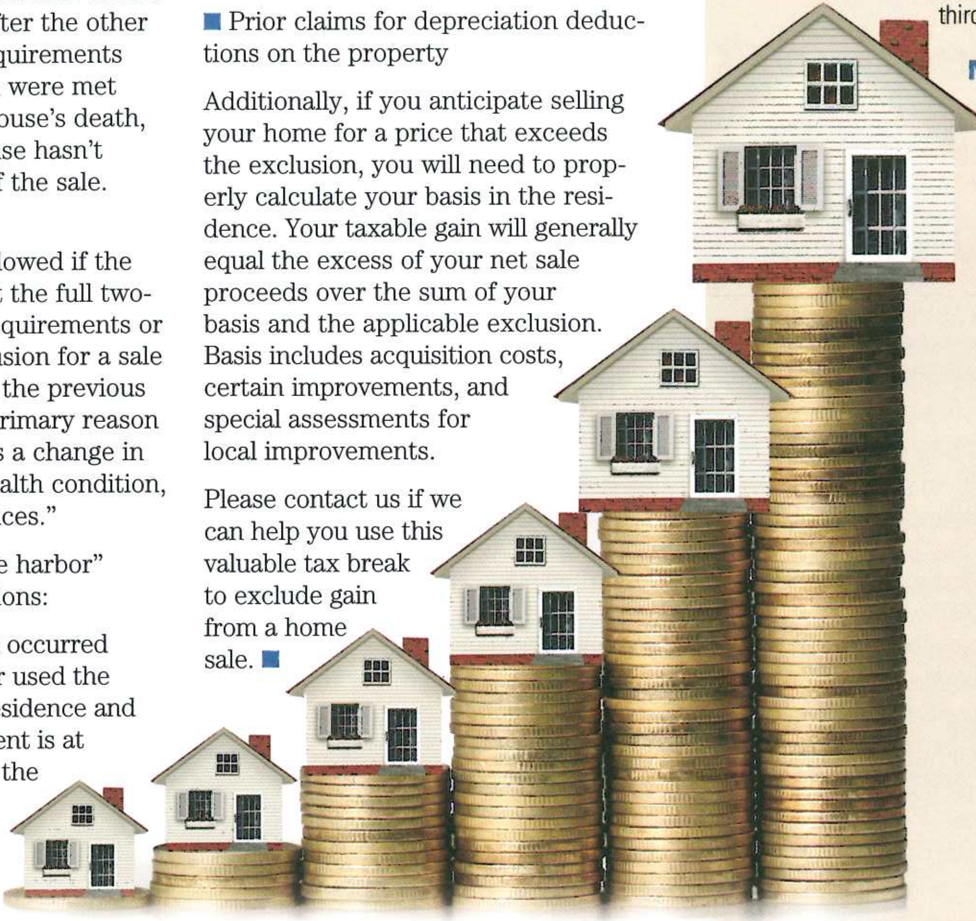
Cautions

Certain situations can complicate the application of the general rule. These include:

- Transfer of property from a spouse (e.g., as part of a divorce settlement)
- Inheritance of property from a spouse
- Use of property as other than a principal residence after 2008
- Prior claims for depreciation deductions on the property

Additionally, if you anticipate selling your home for a price that exceeds the exclusion, you will need to properly calculate your basis in the residence. Your taxable gain will generally equal the excess of your net sale proceeds over the sum of your basis and the applicable exclusion. Basis includes acquisition costs, certain improvements, and special assessments for local improvements.

Please contact us if we can help you use this valuable tax break to exclude gain from a home sale. ■



Calendar of Filing Dates

SEPTEMBER

15 Individuals: Third installment of 2016 estimated tax due; file Form 1040-ES.

15 Corporations: Last day for filing 2015 income tax return (Form 1120, 1120S) by a calendar-year corporation that obtained an automatic six-month filing extension.

15 Corporations: Due date for depositing the third installment of estimated income tax for 2016 for calendar-year corporations.

15 Partnerships: Last day for filing 2015 return (Form 1065) by a calendar-year partnership that obtained a five-month filing extension.

OCTOBER

17 Individuals: File 2015 federal income tax return and pay any tax due if you obtained a six-month filing extension.

31 Employers: File Form 941, Employer's Quarterly Federal Tax Return, for the third quarter of 2016.

NOVEMBER

10 Employers: Deferred due date for Form 941, if timely deposits were made.

Extended Work Opportunity Tax Credit

The Work Opportunity Tax Credit (WOTC) allows employers to claim a tax credit for hiring members of certain "targeted groups." A recent tax law* expanded the list of targeted groups to include the "long-term unemployed" and also extended the WOTC's application to qualified employees who begin work for the employer before January 1, 2020.

Credit Amount

The credit is equal to a percentage of first-year wages. The maximum amount of credit-eligible wages is generally $6,000 per employee. The wage limit is $3,000 for qualified summer youth employees. For qualified veterans, the wage limit ranges from $6,000 to $24,000, depending on certain factors.

Targeted Groups

Targeted groups fall into 10 separate categories, including qualified veterans, vocational rehabilitation referrals, and other individuals receiving specific types of government benefits. The newly added long-term unemployed category applies to individuals hired after 2015 who have had a period of unemployment of at least 27 consecutive weeks. During that time, the individual must have received unemployment compensation paid under state or federal law.

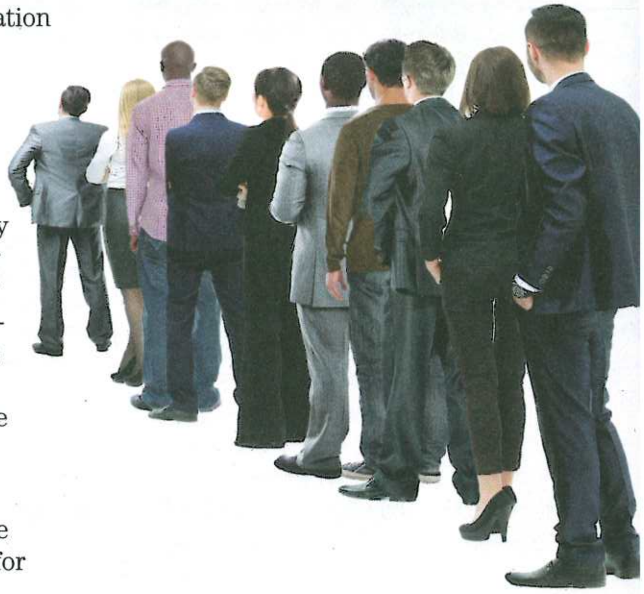
Certification Requirement

A qualifying new employee must be certified as a member of a targeted group by the appropriate State Employment Security Agency (SESA). The employer may either obtain the certification by the day the employee begins work or complete a prescreening notice by the date the job is offered and submit it to SESA within 28 days after the employee begins work.

Tax-exempt Entities

Tax-exempt entities may claim the WOTC (at reduced percentages) for hiring qualified veterans. If allowed, the credit is applied against Social Security taxes paid for all employees during the applicable period. ■

* The Protecting Americans from Tax Hikes Act of 2015



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