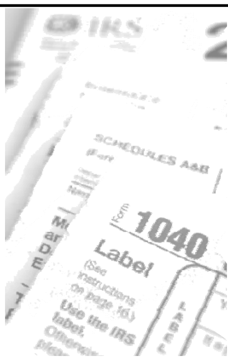

BATSON
ACCOUNTING & TAX, P.A.

TAX NEWSLETTER

WELCOME 2016!

The year 2015 seems to have flown by but we ended the year with a set of tax rules similar to those of 2014. But we also see an IRS pushed to the limit.

As was the case in the prior year, a new tax act was passed late in December. The Protecting Americans from Tax Hikes Act of 2015 (PATH Act) validated over 50 "extenders" that have been temporarily approved one year at a time for several of the past years. Having to wait for Congress each year to re-legislate these is challenging for tax planning, but fortunately some of the extenders were made permanent through the legislation. In this letter, we'll summarize some of the more significant rules.

Meanwhile, IRS continues to be under pressure with reduced budgets and increased responsibilities. Audit rates, either by letter or in person, dropped in 2015 to .84%, the third consecutive year that audit rates remained less than 1% of the filing base. Audit collections also dropped to $7.3 billion, the lowest level since 2002. And now, IRS has responsibility for enforcing rules associated with Obamacare.

According to its own data, IRS answered only 37% of its phone calls between January 1 and April 18, and the hold time averaged 23 minutes for those who got through. The answer rate was 71% in 2014 and a hold time of 14 minutes.

The outcome of it all is a tax system forced to rely greatly upon technology to administer the massive responsibility of tax enforcement and collection with decreased service. While audit rates have declined, none of us wants to be a target.

Because of a holiday and a weekend, this year's filing date is Monday, April 18th. If you want to extend your personal returns to give you until October 17th, we'll be glad to assist you. An extension by IRS is granted automatically if you request it, but it is an extension of time to file, not an extension of time to pay. Therefore, you must pay any balance due by April 18th to avoid penalty.

We are here to help you and we greatly look forward to navigating the challenges and minimizing your taxes.

INSIDE THIS ISSUE:

SCDOR

SC has announced that taxpayers will not be receiving income-tax refunds until after March 1st, regardless of how early they file tax returns.

AUTO EXPENSES AND STANDARD MILEAGE

The business mileage standard rate for 2016 is 54 cents per mile. Qualified medical and moving miles rates decrease to 19 cents per mile. The 14 cents per mile rate for charitable miles remains unchanged from 2015 to 2016.

PATH ACT 2015 "EXTENDERS"

Some of the extenders that were made permanent are:

- American Opportunity Tax Credit
- Deduction for certain expenses of school teachers
- Deduction for state and local sales taxes, if applicable
- Tax-free qualified charitable distributions from retirement plans for individuals over 70.5 years old, maximum $100,000 per year
- Qualified conservation contributions of capital gain real property at 50% of the contribution base
- Code Section 179 expensing limit made permanent at $500,000 per year
- Reduced recognition period of 5 years for S corp built in gains tax

Some of the extenders were made valid for future years:

- Bonus depreciation (through 2019)
- Work Opportunity Tax Credit (WOTC) (through 2019)
- Higher education tuition and fees deduction (through 2016)
- Code 25C energy efficient exterior windows and HVAC credit (through 2016)
- Mortgage insurance deduction (through 2016)
- Qualified mortgage debt forgiveness exclusion (through 2016)

Provisions for bonus depreciation and Section 179 depreciation are particularly helpful to business owners and generate additional deductions. Having the AOTC extended permanently is a huge help to families who have children in college, as the credit is up to $2,500 per student based on expenses for tuition, books, and supplies and equipment. But it does not allow consideration for board or rent.

TAX FILING FRAUD, IDENTITY THEFT AND PTIN NUMBERS

In early 2015, there appeared to be more fraudulent filings than ever with unsuspecting taxpayers discovering their SSNs had been hacked. When this happens, IRS blocks future filings for that SSN by issuing a PTIN (personal taxpayer identifying number) that must be used when filing the returns.

If you received a letter in December or early January assigning at PTIN, please save the letter and give us a copy. IRS made a big error on that letter by indicating the assignment was for 2014 - they have acknowledged the error so be aware the PTIN is actually for 2015.

Will fraud be even greater this year? IRS has said it has put much more stringent controls in place to avoid fraudulent filing. We'll see soon.

IRS PHONE CALLS & EMAIL SCAMS

If you receive a phone call from someone saying they are with IRS and threaten you with serious consequences if you don't pay, know it is a scam. IRS does not make phone calls to collect money. Nor do they send email for that purpose.

One day this past summer, we received a call from one of these scammers and we also heard from 3 clients that same day of similar calls. Then again late in the year there was another rash of scam phone calls. The callers are often rude, abusive and may have foreign accents, but one of our clients recorded a call made by an articulate female with no accent. Regardless, these calls are not valid and we advise you to hang up or otherwise ignore the call.

2016 TAX PROVISIONS

Filing Status	Standard Deduction Amount
Single	$6,300
Married Filing Jointly	$12,600
Married Filing Separately	$6,300
Head of Household	$9,250
Surviving Spouse	$12,600

Personal Exemption Phaseout "PEP" Thresholds

Filing Status	PEP Threshold Begins	PEP Threshold Ends
Individual	$258,250	$380,750
Married Filing Jointly	$309,900	$432,400
Head of Household	$284,050	$406,550
Married Filing Separately	$154,950	$216,200

Pease Limitations

Filing Status	Pease Threshold:
Individual	$258,250
Married Filing Jointly	$309,900
Head of Household	$284,050
Married Filing Separately	$154,950

Type of Plan	2016 Limit
401(k), 403(b) & 457 deferrals	$18,000
401(k) & 403(b) catchup contributions *	$6,000
Defined contribution plan dollar limit	$53,000
Defined benefit plan dollar limit	$210,000
IRA	$5,500
IRA catchup contribution *	$1,000
SEP compensation	$600
Simple retirement accounts	$12,500
Simple & IRA catchup contributions *	$3,000

*** Catchup contributions may be made by taxpayers over 50.**

ZERO TAX ON CAPITAL GAINS/CAPITAL GAINS RATE THRESHOLDS

An extraordinary quirk in tax law exists whereby capital gains may be harvested at a zero tax rate, and this remains in effect for 2016. It allows those with "low" taxable income before considering capital gains to recognize a capital gain with no taxation.

An example - John and Mary have taxable social security income of $34,000, taxable interest and dividend income of $16,000, taxable IRA distributions of $40,000. Total income is $90,000. They have itemized deductions and personal exemptions of $40,000. Their taxable income is $50,000. They can take a capital gain on sale of assets of $24,900 and the gain will be entirely tax free. Because their taxable income is $74,900 or less, the capital gain comes to them tax free. Shown below is a table of the thresholds.

Snapshot of cutoff levels

Long-Term Capital Gains

Single Filers	Joint Filers	Tax Rate
$0 - $37,450	$0 - $74,900	0%
$37,451 - $189,300	$74,901 - $230,450	15%
$189,301 - $413,200	$230,451 - $464,850	15%
$413,201+	$464,851+	20%

This is an ideal planning opportunity for those who are qualify on non-cap gain income and have capital gains available. Please contact us to plan whether you can take advantage of this benefit.

Also, the table above addresses the levels of taxable income that trigger the 0%, 15% and 20% capital gains tax rates. In most cases, capital gains tax rates are less than ordinary tax rates.

RED FLAGS

Very few people truly know exactly what data will trigger an audit. What we are told is that their computers may "select" a long list of returns and that the list is then reviewed by humans who then determine whether an audit is in order. Files are then chosen and assigned to field offices, or letters are written. Here are some items that raise our eyebrows and probably Uncle Sam's, as well:

1. Any large charitable contributions, such as 30%-50% of gross income;
2. Large amounts of unreimbursed employee business mileage and unreimbursed business expenses such as meals and entertainment;
3. Schedule C (Profit or Loss from Business) filings that result in significant losses;
4. Large amounts deducted as maintenance and repairs for businesses or rental properties;
5. Alimony expense claimed that does not match the amount reported by the recipient;
6. Any casualty or theft loss. Since these have to exceed 10% of adjusted gross income in order to be deductible, and since insurance covers many casualty losses, IRS often has curiosity about these;
7. Failure to report income, particularly if it has been reported via some tax form.

Of course, we always say take whatever deductions are valid even if they are on this list and are large. We should never fear an audit when we can back up our claims.

Some also wonder if variances of amounts between one year and another will trigger an audit. We don't think so, but again, we don't have the playbook.

STEP UP IN BASIS/GIFTING

Inevitably, we will experience the loss of a loved one, a parent or other family member. After the loss, there are basic tax considerations that are largely unknown until faced.

A substantial fact is that assets are passed to beneficiaries with a cost basis equal to the fair market value of the asset at the time of death. For example, John inherits the house owned by his father, who paid $10,000 for the property in 1975. At the time of death, the property was worth $200,000. John's cost basis when he sells the house will be $200,000, the stepped up basis allowed in estate tax law. Therefore, if the house sells for $205,000, his reportable gain will be only $5,000.

The planning consideration is the problem that is created if the parent transfers the house ownership to children before death. Any transfer pre-death means that the beneficiary accepts cost basis of the parent. In the case above, had the house been transferred to the children during the lifetime of the parent, their cost basis would have been $10,000 and there would be a taxable gain of $190,000.

Additionally, gifting in excess of $14,000 per year person creates its own tax issues. Please call us if you have questions on these matters and need to do some planning.

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A NOTE FROM PAUL

There are lots of days I'd like to slow down after 29 years in practice, but not today! I am excited. Excited that we have the opportunity to use our knowledge, technology, our people, and our relationships to help you with your tax filings.

It is a matter of great pride to me that we have been successful in building personal relationships with so many wonderful people over the years. Back in 1987 I was grateful to have about 25 clients. A few of them are still with me, and I'm proud that hundreds more have trusted us with their work in the many years following. Thanks to all of you for being our clients and friends!

Our central staff members, Angela Gravley, Leslie Stewart, Ray Harris and Ann Batson are still here to help, and we have several part time new staffers who'll be great additions to our support. All of us look forward to the opportunity to minimize your taxes and your filing burdens again this year.

Please know of my great appreciation for the opportunity to serve you. All of us are here to serve you. Thanks for your confidence and trust.

Paul Batson

SERVICE TO HIGHER EDUCATION

Early in 2015, Paul was appointed by Governor Haley to serve on the SC Commission on Higher Education as the Commissioner for the Public Technical Colleges statewide. It appears that term will be extended into 2017. Simultaneously, he serves on the Board of Greenville Technical College and remains as Chairman of the SC Association of Technical College Commissioners. He also still teaches one class a year at Furman University after 41 years.

DISCLOSURE OF INFORMATION

Due to liability and confidentiality issues, we are unable to send tax returns to third parties. We will, however, be happy to send a PDF copy of your return to you for this purpose . We'll continue to assist you and will help with the paperwork.

SO WHAT MAY I DEDUCT FOR 2015

If you itemize your deductions (as compared to taking a standard deduction), the following deductions apply:

-Medical expenses. They must exceed 10% of adjusted gross income (7.5% if age 65 or over) in order to be deductible. They include prescription drugs, supplies, payments to doctors, labs, hospitals, psychologists, transportation, nursing services, nursing homes, long term care insurance and others. Not deductible are marriage counseling, maternity clothing, childbirth coaching, over the counter drugs and baby-sitting expenses to allow parent to see a doctor;

-State and Local Taxes. Income taxes and estimated taxes paid to states are deductible, as are property taxes paid on real estate and personal property. Evidence must exist that the taxes were paid within the calendar year in order to be deductible;

-Mortgage Interest. Mortgage interest paid on principal residence and a second home are deductible. Also, points & origination fees may be deductible in the year of purchase of a principal residence, and points paid on refinance are deductible over the life of the loan. Mortgage insurance premiums may be deductible for those with qualifying incomes; margin interest is deductible to the extent of portfolio and certain investment income. Not deductible are most of the closing fees when buying or selling a principal residence. Also, there are limitations on deductibility when mortgages exceed $1 million;

-**Charitable Contributions**. Contributions made to legitimate charities by check, credit card, cash, and stock transfers are deductible. There should be evidence of payment (i.e., cancelled check) and a receipt to support the contribution. Non cash contributions are also deductible if documented by receipt and adequate evidence of what was given and at reasonable values. Charitable contributions made directly to an individual are generally not deductible (i.e. to a missionary or a needy person);

-**Casualty Losses**. If you were the victim of theft or vandalism or flood, for example, that was not something covered by insurance, your casualty loss may be deductible. The amount of unreimbursed loss must be greater than 10% of your income to be deductible;

-Miscellaneous. These deductions must exceed 2% of your AGI to be deductible. They include unreimbursed employee expenses, union dues, professional dues, education costs required to maintain your job, tax preparation fees, investment advisory fees paid by you (not by your IRA), legal fees paid for the production of income or the producing or collection of alimony are generally deductible. Generally, legal fees incurred for personal purposes are not deductible (i.e., wills, divorce fees, purchasing a home).

This list is certainly not exhaustive, but we can help you if you have questions.