Newsletter

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Certain disabled get a new tax break

The "tax extenders" legislation that became law in December 2014 included the "Achieving a Better Life Experience Act" (also called the ABLE Act). This law provides for tax-exempt accounts that can help you or a family member with disabilities pay for qualified expenses related to the disability. These "ABLE accounts" are exempt from income tax although contributions to an account are not deductible on your federal income tax return. ABLE accounts are generally not means tested and some can provide limited bankruptcy protection.

You or a family member are eligible to open an ABLE account if:

1. You're entitled to social security disability benefits due to blindness or other disability, and that blindness or disability occurred before age 26; or
2. You file a disability certification with the IRS for the tax year.

Annual contributions to an ABLE account are limited to the amount of the annual gift tax exclusion ($14,000 for 2015). Distributions are tax-free as long as they are less than your qualified disability expenses for the year. The list of qualified disability expenses includes housing, education, employment training/support, health prevention/wellness services, financial management, legal fees, and funeral expenses. Other expenses are also approved under the regulations.

Distributions exceeding qualified disability expenses are included in taxable income and are generally subject to a 10% penalty tax. Distributions can be rolled over to another ABLE account for another qualified beneficiary and beneficiaries can be changed between family members. Funds in the account can earn interest or dividends and are not subject to federal income tax as long as distributions are used for qualified disability expenses. ABLE accounts do not have a "use it or lose it" feature and funds can carry over to future years.

The balance remaining in the account after the beneficiary passes away can be used to reimburse state Medicaid payments made on behalf of the beneficiary after the account was established. The remainder goes to the deceased's estate or to another qualified designated beneficiary. After-death distributions that are not used for qualified disability purposes are subject to income taxes, but not the 10% penalty.

If you are thinking many of these rules sound familiar, you're correct. ABLE accounts are modeled on 529 college savings accounts. Give us a call so we can help you make the most of this new opportunity.

IRS releases 2015 business vehicle deduction limits

The IRS has published depreciation limits for business vehicles first placed in service this year. The limits for passenger autos remain the same as the 2014 limits, but the second year limit for light trucks and vans is $100 higher.

50% bonus depreciation is no longer allowed for most business equipment purchases, including vehicles.

Here's a quick review of the limits for 2015. For business cars first placed in service this year, the first-year depreciation limit is $3,160. After year one, the limits are $5,100 in year two, $3,050 in year three, and $1,875 in all following years.

The 2015 first-year depreciation limit for light trucks and vans is $3,460. Limits for year two are $5,600, in year three $3,350, and in each succeeding year $1,975.

For details relating to your 2015 business vehicle purchases, contact our office.

Now is the time to check your 2015 tax payments

If you got a big tax refund or owed the IRS a lot of money when you filed your 2014 tax return, it may be time to adjust your income tax withholding.

Many people like to receive a refund from the IRS, thinking of it as a form of forced saving. If you're of this opinion, that's fine. But too big a refund means you're wasting your money, giving an interest-free loan to the government.

On the other side, if you underpay your taxes by more than $1,000 and don't meet certain exceptions, you could be hit with a penalty.

Adjusting your withholding is as simple as filing a new Form W-4 with your employer. The form comes with a worksheet to figure out how many allowances you should claim. Or you can increase withholding by specifying an extra dollar amount to be withheld from every paycheck.

When reviewing your 2015 tax payments, keep a couple of general rules in mind. Generally, you must pay (through withholding or quarterly estimated payments) at least 100% of last year's tax liability (110% if your prior year's adjusted gross income is over $150,000), or at least 90% of what you'll owe for this year.

However you do it, you should adjust your withholding to match the taxes you expect to owe. If you need assistance figuring out your 2015 tax payments, give us a call.

Reminder: Tax-exempts have filing requirement coming soon

Tax-exempt organizations are required to file annual reports with the IRS. Those with gross receipts of $50,000 or less can file an E-postcard rather than a longer version of Form 990.

The deadline for nonprofit filings is the 15th day of the fifth month after their year-end. For calendar-year organizations, the filing deadline for 2014 reports is May 15, 2015. Contact us if you need details or filing assistance.

Schedule a midyear tax review soon

As summertime approaches, tax planning is probably the last thing on your mind. The problem is that if you wait until December, there's little time for changes to take effect. But if you take the time to plan now, you still have seven months for your actions to make a difference on your 2015 tax return.

Making time for 2015 tax planning now not only helps reduce your taxes, but also helps to put you in control of your entire financial situation. Tax planning should be a year-round process, but it's especially effective at midyear. Give us a call for guidance in implementing the best moves for your particular situation.