✓PAC TAX & FINANCE™

✓ JANUARY 1, 2016 – VOL. MMXVI NO. 52 $3.00 ✓

PHONE 651-738-0457 **FAX** 651-734-9823 **WEB** www.pactax.net
ADDRESS 586 HAYWARD AVENUE N, OAKDALE MN 55128

Must have items for your appointment:

Bring your checkbook or cash to pay for your tax preparation.

We do not invoice for our services. We **DO NOT accept credit cards, so please bring a checkbook, cash, or bank information to pay for your tax preparation service.**

NEW: Bring Form 1095-A, B and or C

New this year is form 1095 proof of health insurance. Form 1095-A is provided to individuals who purchase health insurance through the marketplace. Form 1095-B is provided by the insurance company, typically for individuals that purchase their own health insurance outside of the marketplace. Form 1095-C is provided to employees who purchase their insurance through their employer provided plan. You will get at least one of these forms unless you were uninsured.

Bring Form 1098-T tuition statement for parents and/or students in College or Post-Secondary education.

In 2015 IRS requires anyone claiming the American Opportunity Credit must have a form 1098-T to claim the credit. This illusive form is not typically mailed out but can usually be found on the student portal web page. The form is issued to the student, not the parent, even though the parent may be claiming the credit for their dependent student. Computers, books, tools, materials and other supplies may also be qualifying expenses that can be used for the education credit. Keep your receipts!

Bring Form 1099-SA if you participated in a Health Savings Account

If you used any funds in your Health Savings Account you will need to bring your form 1099-SA. Form 5498-SA is not required for preparation, so don't panic if this arrives after your preparation.

Schedule Your Tax Appointment and Drop-Off, Mail, Fax, or Email Your Tax Information

Schedule your appointment now! We offer daytime, evening and weekend appointments. Don't wait until you have all your information to schedule your appointment. Evenings and weekends fill up fast.

If you have moved or prefer not to come in for an appointment, you can drop off, mail, fax, or email your tax information. We prepare returns from all over the country. To make the most out of your appointment we recommend that you come in person, especially if you a new client. We cannot guarantee your requested preparer for returns that are mailed, faxed or dropped off. We do our best to expeditiously prepare your drop return. Returns dropped off may have a three week turn around.

Please arrive on time for your appointment. We do our best to provide prompt professional service. Some clients require more time while others less and we want each client to get the full amount of attention needed. If a client arrives late that can throw off our schedule for an entire day.

Come prepared! We understand that circumstances arrive that you may not have all your documents, but avoid sending in multiple pieces of information in piece meal, **especially** through email.

Avoid rescheduling your appointment unless it is absolutely necessary. If you need to reschedule, please give a 24 hour notice. If you are still waiting for a few documents when your appointment date arrives, we recommend keeping your scheduled time and we can complete the return at later date when you receive the missing document.

Our fees are extremely competitive and we do our best to keep our services affordable. With more people qualifying for property tax refunds and the increasing complexity of the tax code, expect to see a 10% to 20% increase in our fees.

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Health Insurance Penalty Ramps Up

The penalty for not having health insurance ramps up from 1% of your household income in 2014 to 2% in 2015. The penalty is $325 per person or the percentage of income, whichever is higher. Depending on your income you may not incur the full penalty.

Most taxpayers who purchased health insurance through the state marketplace took the Premium Tax Credit as an immediate deduction in health premium in lieu of the credit on the tax return. In either case these amounts must be reconciled on the tax return to verify that the estimated income for 2015 matches the actual income reported on the 2015 return.

Individuals who previously had no tax filing requirement must still file a return to reconcile the Advanced Premium Tax Credit that they received.

There are exemptions for hardship from the Shared Responsibility Payment. To qualify you must submit an application and in most cases provide documentation. The following are some of hardships:

- You are homeless
- You are incarcerated
- Foreclosure
- Utility shut-off notice
- Death of a close family member
- Disaster
- Bankruptcy in the last six months
- Medical expenses that you couldn’t pay in the last 24 months
- Domestic violence
- 2 month coverage gap
- Your state did not participate in the expansion of Medicaid under the ACA

In most of these cases your income would be low enough that you would be required to pay the penalty. Members of certain religious sects are not required to pay the penalty but an application must filed to receive such exemption.

At this point it’s hard to beat the system. The penalties have nearly reached the point that it is foolish to go uninsured. If you can’t afford it, the insurance pool should make it so your insurance is affordable.

Congress stuns the audience by extending the following tax cuts.

The following tax cuts have been extended by congress in an unusual end of year legislature passage.

- State and local sales taxes
- Child tax credit
- Earned income credit
- Private mortgage insurance premiums
- Educators' out-of-pocket expenses
- Higher education tuition and fees deduction, does not apply to the American Opportunity Credit
- Rollover of IRA distributions to charity
- Mortgage debt forgiveness
- Residential home energy improvements for certain Geo-thermal and solar improvements still qualify.

Scams and Stanger Danger!!!

You may want to file a form 14039 if you are a victim of identity theft, IRS may issue you an Identity Protection PIN required to file your return. Phone and email scams are becoming more prevalent. IRS WILL NEVER CALL YOU OR EMAIL without you first initiating contact. IRS will always contact you via US mail if there is a change to your return. Any unwarranted call or email threating that you take immediate action is most certainly a scam.

Beware television ads claiming that they settle your IRS debts for pennies on the dollar. These firms typically offer big promises with very little results. You can make your own offer in compromise, but the qualifications are extremely rigid and you must be nearly destitute to qualify.

Minnesota and Wisconsin still do not have a reciprocity agreement.

Minnesota and Wisconsin residents that work in a non-resident state will still have to file returns for both Minnesota and Wisconsin. With Minnesota winning out on this deal, don’t expect any change on this status in the immediate future.

When should I start collecting Social Security benefits?

There is no easy answer to this subject and entire books are written on maximizing your social security benefits. You will want to apply for benefits around three months before receiving them. A few simple strategies are listed here.

If you continue to work full time and expect to earn more than the retirement benefit earnings limit, we recommend that you wait until your full retirement age. If you are under full retirement age for the entire year**,** they will deduct $1 from your benefit payments for every $2 you earn above the annual limit. For 2015, the limit is $15,720. In the year you reach full retirement age, they will deduct $1 in benefits for every $3 you earn above the limit of $41,880, but they only count earnings before the month you reach your full retirement age.

If you are divorced, but your marriage lasted 10 years or longer, you can receive benefits on your ex-spouse's record (even if he or she has remarried) if:

- You are unmarried;
- You are age 62 or older;
- Your ex-spouse is entitled to Social Security retirement or disability benefits and
- The benefit you are entitled to receive based on your own work is less than the benefit you would receive based on your ex-spouse's work.

If you know when you will die, if you can keep your job, how long your retirement savings will last, what the stock market will do, it would be easy. Unfortunately these are all unknown factors in life. You can make educated decisions based on your family's history of longevity, the value of your portfolio, and other variables. A general rule is if you have underfunded your retirement plan, you should put off collecting social security as long as possible. If you are good financially and your family does not have a good history of longevity, taking your benefits early might be a better option. The social security web page has very useful tools for this complex system. If you are disabled the Social Security Red Book can be a great help.

Record number of property tax refunds prepared in 2015! PAC prepared over $1,000,000 worth of refunds.

Thanks to the Minnesota's increase and expansion of the property tax refund qualifications; a record number of taxpayers qualified for property tax refunds even if they hadn't in the past. At PAC we do not charge an extra fee for preparing your M1PR. We are one of the few firms that don't require you to make another appointment for your M1PR preparation. If you think you may have qualified have your preparer review your return. You have until August 15th of 2016 to file your 2015 M1PR. You have until August 15th 2017 to file your 2016.

If you want to do a quick check to see if you might qualify: total income - $5,000 per dependent, take the result and multiply by 2%. If your taxes exceed the 2% you might be eligible. There are thousands of other factors involved so this is just a cheat sheet. Most property tax refunds are issued by October 15th. Minnesota Revenue has been reviewing many of the M1PR filed, so don't count on your property tax refund being available in time to make you're second half payment.

Am I a still Minnesota resident?

Just because you spent more than half of the year in another state, Minnesota Revenue may still consider you a Minnesota resident. They consider many factors besides just the number of days spent here. Sizes and locations of domiciles, business and professional organizations, driving licenses, hunting licenses, voter registration, community connections like church, clubs and many other factors. If you plan on moving to a tax-free state when you retire, do your best to make it a clean break. Ditch the cabin or second home here. Establish all your legal documentation in the new state and establish a permanent residence in another state. If you sell all your belongings and plan on wandering around in an RV, Minnesota may still consider you a Minnesota resident because you haven't established a permanent domicile in another state.

Errors and Omissions, or "He said, she said…"

"*To err is human, to forgive, divine*". While we do our best to prepare your returns as accurately as possible, errors and/or omissions are inevitable. Often it is difficult to determine if the client or the preparer is at fault. We may charge an additional fee for amending returns due to client error. Regardless of fault, if you receive a CP2000 (change notice) the issue must be resolved. If you get a notice that states you owe more money there are three possibilities. One, you owe it. Two, you don't owe. Three you owe part of it, or are getting money back. If you get a change notice, contact your tax preparer immediately. Even if you agree with the proposed changes, your state return will probably need to be amended. DON'T ignore the notice. The longer you delay the more difficult they get to unravel. PAC is **not** responsible for interest and/or penalties on adjusted returns. Our liability is limited to the cost of your tax preparation fee.

Better on time than never, file on time even if you owe and can't pay!

The tax deadline for 2015 filing season is April 18th, 2016. You should file before the deadline even if you expect to have a balance due and are able to pay. The late filing penalty is 5% of the additional taxes owed amount for every month (or fraction thereof) your return is late, up to a maximum of 25%. If you file more than 60 days after the due date, the minimum penalty is $135 or 100% of your unpaid tax, whichever is smaller.

Like most things in life, the more they are ignored the worse they get. Don't delay the inevitable. File your 2015 return even if you haven't filed previous years. If you haven't filed previous years, do so immediately. IRS will not pay out refunds that are over three years past the filing deadline. Many late filing clients have forfeited refunds by filing too late. It is a one-way street. If you owe money for a return that is three years overdue, you still owe the money plus interest and/or penalties.

Gift and Estate Taxes

The 2015 gift tax exclusion amount is $14,000 per individual per spouse. It is expected to remain at that amount for 2016. If you give more than that amount per person you are required to file a gift tax return. You will not have to pay any gift tax at that time. The amount over that limit will reduce your lifetime estate tax exclusion. Currently the federal estate tax exclusion is $5,340,000 for single and $10,680,000 for married filers.

The Minnesota estate tax exclusion of 2015 is $1,300,000 and $1,400,000 for 2016. With Minnesota's inheritance tax rates ranging from 10%-16% of the amount over the exclusion, many wealthy residents get out of dodge before they kick the bucket.

When gifting money, it is up to the person giving the gift to file the gift tax return; not the recipient of the gift. If your projected estate is well under the Minnesota limit you are still required to file the gift tax return if your gift per person exceeds the yearly limit, but you will not owe any estate tax when you die.

Is my inheritance taxable?

The following are non-taxable:

- Life insurance
- Post tax savings, checking and money market accounts
- Sale of a principal residence is typically non-taxable, but the sale may have to be reported
- Hard assets (furniture, cars, planes, pet mongoose, etc.)
- Resentments

The following items are taxable:

- Traditional IRA's
- Earnings on inherited income
- Sale of business property

If the decedent had to file an estate tax return, the estate would have to pay the tax liability before distributing the money to the beneficiaries.