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Monthly Newsletter

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President's Budget Proposal

Article Highlights:

- Small Business Provisions
- Individual Provisions
- Gift & Inheritance Provisions

The President's Fiscal Year 2016 Budget Proposal was just released and includes a number of tax proposals that would increase the taxes on higher-income taxpayers and provide more tax breaks for low- to middle-income taxpayers. The following are some highlights of the budget proposal that would impact individuals and small businesses, **but remember these are proposals only.**

Business Provisions

- **Section 179 Expensing** – Would make the Sec. 179 expense cap \$500,000 for 2015 (it is currently at \$25,000, down from \$500,000 in 2014). Would raise the expense cap to \$1 million in 2016 and make the \$1 million permanent with inflation adjustment for future years.
- **Cash Basis Accounting** – Would expand use of the cash method of accounting to small businesses with less than \$25 million in average annual gross receipts, estimated to apply to 99% of all businesses.
- **Qualified Small Business Stock** – Would permanently extend the 100% exclusion on capital gains from sales of tax-qualified small business stock held by individuals for more than five years, and would eliminate the inclusion of excluded gain from the Alternative Minimum Tax.
- **Start-Up & Organizational Expenses** – Would increase and consolidate the deduction for start-up and organizational expenditures.
- **Small Employer Health Insurance Credit** – Would expand the credit for small employers to provide health insurance to apply to up to 50 (rather than 25) full-time equivalent employees, with phaseout between 20 and 50 employees (rather than between 10 and 25).
- **Mandatory Employer IRA Payroll Deductions** – Would require employers with 10 or more employees who don't have a 401(k) plan to automatically enroll full-time and part-time employees in an optional IRA payroll deduction plan.

Individual Provisions

- **Child Care** – Would allow a credit of up to \$3,000 (50% credit for up to \$6,000 of expenses per child) for each child under the age of 5 to enable gainful employment of the parent(s) or other qualified taxpayer. The regular credit for those ages 5 through 12 would also begin to phase out at \$120,000 (instead of \$15,000 under current law). Flexible spending accounts for child care would be eliminated.
- **Second Earner Tax Credit** – Would provide a new tax credit up to \$500 (5% of the first \$10,000 of earnings for the lower-earning spouse) for joint filers with two wage earners. The credit would begin to phase out at income of \$120,000 and would be fully phased out when family income reaches \$210,000. It is estimated that this new credit would benefit 24 million joint filers.

- **Earned Income Tax Credit (EITC)** – Would double the EITC for workers without a child and increase the credit applicability for childless workers with earnings up to 150% of the federal poverty level (currently about 125%). Would expand the applicability of the EITC to workers age 21 to 66 (currently 24 to 64).
- **Education Tax Benefits** – The American Opportunity Tax Credit (AOTC) would be expanded to cover five years of post-secondary education, and the current \$2,500 tax credit would be adjusted for inflation. The refundable portion of the AOTC would be increased to \$1,500. Part-time students would be eligible for a \$1,250 AOTC (up to \$750 refundable). Duplicative and less effective provisions, including the Lifetime Learning Credit, the tuition and fees deduction, the student loan interest deduction (for new borrowers), and Coverdell accounts (for new contributions) would be repealed or allowed to expire. The credit would also be better coordinated with Pell Grants.
- **Top Capital Gains Rate** – Would raise the top effective capital gains and qualified dividends tax rate to 28% (24.2% plus the 3.8% net investment income tax). For couples, the 28% rate would apply where income is more than \$500,000 annually.
- **Itemized Deductions** – Would limit to 28% the value of itemized deductions and other tax preferences for married taxpayers with incomes over \$250,000 and individual taxpayers with income over \$200,000. The limit would apply to all itemized deductions as well as other tax benefits, such as tax-exempt interest and tax exclusions for retirement contributions and employer-sponsored health insurance.
- **Limit Retirement Account Contributions** – Would prohibit contributions to and accruals of additional benefits in tax-preferred retirement plans and IRAs once balances are about \$3.4 million, which is about enough to provide an annual income of \$210,000 in retirement.
- **Buffett Rule** – Would implement the “Buffett Rule.” This rule, which is a carryover from prior year budget proposals, would require the wealthy to pay at least a 30% effective tax rate.

Gift & Inheritance Tax Provisions

- **Inheritances and Gifts** – Would eliminate the current step-up in tax basis at death and require payment of capital gains tax on the increase in value of securities at the time they are inherited. Generally, a \$100,000-per-person, portable-between-spouses exclusion would apply for inherited appreciated assets, along with exceptions for surviving spouses, small businesses, charities, and residences, among others. For couples, no tax would be due until the death of the second spouse. No tax would be due on inherited small, family-owned-and-operated businesses unless and until the business was sold, and any closely held business would have the option to pay tax on gains over 15 years. Couples would have an additional \$500,000 exemption for personal residences (\$250,000 per individual), with this exemption also automatically portable between spouses. Tangible personal property other than expensive art and similar collectibles – e.g., bequests or gifts of clothing, furniture, and small family heirlooms – would be tax-exempt.
- **Inheritance and Gift Tax** – Would reinstate the prior, 2009, estate and gift tax rates with lower exclusions (generally at 45% at \$3.5 million for estates and \$1 million for gifts).

These are all proposals by the Obama administration and must be approved by Congress. The information is being passed along so you will have an idea of what might happen in the future.

Receive Your Refund Faster With Direct Deposit

Article Summary:

- Speed
- Security

- Convenience
- Options
- Funding an IRA

Don't wait around for a paper check. Have your federal (and state, if applicable) tax refund deposited directly into your bank account. Selecting Direct Deposit is a secure and convenient way to **get your money into your pocket more rapidly.**

- **Speed** - When combining e-file with direct deposit, the IRS will likely issue your refund in no more than 21 days.
- **Security** - Direct deposit offers the most secure method of obtaining your refund. There is no check to lose. Each year, the U.S. Post Office returns thousands of refund checks to the IRS as undeliverable mail. Direct deposit eliminates undeliverable mail and is also the best way to guard against having a tax refund check stolen.
- **Easy** - Simply provide this office with your bank routing number and account number when we prepare your return and you'll receive your refund far more quickly than you would by check.
- **Convenience** - The money goes directly into your bank account. You won't have to make a special trip to the bank to deposit the money yourself.
- **Eligible Financial Accounts** - You can direct your refund to any of your checking or savings accounts with a U.S. financial institution as long as your financial institution accepts direct deposits for that type of account and you provide valid routing and account numbers. Examples of savings accounts include: passbook savings, individual development accounts, individual retirement arrangements, health savings accounts, Archer MSAs, and Coverdell education savings accounts.
- **Multiple Options** - You can deposit your refund into up to three financial accounts that are in the your name or your spouse's name if it is a joint account. You can't have part of the refund paid by paper check and part by direct deposit. With the split refund option, taxpayers can divide their refunds among as many as three checking or savings accounts at up to three different U.S. financial institutions. Check with your bank or other financial institution to make sure your direct deposit will be accepted.
- **Deposit Can't Be to a Third Party's Bank Account** - To protect taxpayers from scammers, direct deposit tax refunds can only be deposited into an account or accounts owned by the taxpayer. Therefore, only provide your own account information and not account information belonging to a third party.
- **Fund Your IRA** - You can even direct a refund into your IRA account.

To set up a direct deposit, you will need to provide the bank routing number (9 digits) and your account number for each account into which you wish to make a deposit. Please have these numbers available at your appointment.

For more information regarding direct deposit of your tax refund and the split refund option, we would be happy to discuss your options with you at your tax appointment.

Tuition for School to Treat Learning Disabilities is Deductible

Article Highlights:

- Tuition To Treat Learning Disabilities is Deductible
- Medical Deduction
- Special Teaching Techniques

IRS has privately ruled that for a child diagnosed with multiple learning disabilities, tuition paid to attend a school designed to assist students in overcoming their disabilities and developing appropriate social and educational skills was a deductible medical expense.

Treating a child's learning disabilities can place a heavy financial burden on parents. As the ruling illustrates, the tax law may help by allowing a deduction for the cost of educating such a child.

However, like other deductible medical expenses, this cost is deductible only to the extent that medical expenses for the year cumulatively exceed 10% (7.5% through 2016 if the taxpayer is age 65 or over) of the taxpayer's adjusted gross income.

Medical care includes the cost of attending a special school designed to compensate for or overcome a physical handicap, in order to qualify the individual for future normal education or for normal living. This includes a school for the teaching of Braille or lip reading. The principal reason for attending must be the special resources for alleviating the handicap. The cost of tuition for ordinary education that is incidental to the special services provided at the school, and the cost of meals and lodging supplied by the school also is included as a medical expense. The distinguishing characteristic of a special school is the substantive content of its curriculum, which may include some ordinary education, but only if the ordinary education is incidental to the school's primary purpose of enabling students to compensate for or overcome a handicap.

IRS ruled that where the school uses special teaching techniques to assist its students in overcoming their condition and that these techniques along with the care of other staff professionals are the principal reasons for the child's enrollment at the school then the school is a "special school". Thus the child's tuition at the school in those years he is diagnosed as having a medical condition that handicaps his ability to learn are deductible.

The Tax Court has also held and IRS has privately ruled that, where a school attended by a student with a medical problem doesn't qualify as a special school because the ordinary education isn't incidental to the special services provided, the costs of the special program or special treatment (but not the entire tuition) may still be a deductible medical expense.

If you have questions related to this or other medical deductions please give this office a call.

Important Times to Seek Assistance

Article Highlights

- When to seek professional assistance
- Examples of times where tax saving moves can be made

Waiting for your regular appointment to discuss current tax-related issues can create problems or cause you to miss out on beneficial options that need to be timely exercised before year-end. Generally, you should call this office any time you have a substantial change in taxable income or deductions. By doing so, we can advise you about how to optimize your tax liability, avoid or minimize penalties, estimate and pre-pay required taxes, document deductions, and examine and explore tax options. You should call this office if you or your spouse:

- Receive a large employee bonus or award
- Become unemployed
- Change employment
- Take an unplanned withdrawal from an IRA or other pension plan
- Retire or are contemplating retirement
- Move or otherwise change your address
- Exercise an employee stock option
- Have significant stock gains or losses
- Get married
- Separate from or divorce your spouse
- Sell or exchange a property or business
- Experience the death of a spouse during the year

- Turn 70½ during the year
- Increase your family size through birth or adoption of a child
- Start a business or acquire a rental property
- Receive a substantial lawsuit settlement or award
- Get lucky at a casino, lotto, or game show and receive a W-2G
- Plan to donate property worth \$5,000 (\$500 if a vehicle) or more to a charity
- Plan to gift more than \$14,000 to any one individual during the year

In addition, you should call whenever you receive a notice from the government related to your tax return. You should never respond to a notice without first checking with this office.

Retirement Savings: the Earlier, the Better

Article Summary:

- Teenagers and young adults
- Tax-free accumulation
- Earned income requirement
- Roth IRA

Generally, teenagers and young adults do not consider the long-term benefits of retirement savings. Their priorities for their earnings are more for today than that distant and rarely considered retirement. Yet contributions to a retirement plan early in life can enjoy years of growth and provide a substantial nest egg at retirement.

Due to its long-term benefits of tax-free accumulation, a nondeductible Roth IRA may be the best option. During most individuals' early working years, their income is usually at its lowest, allowing them to qualify for a Roth IRA at a time where the need for a tax deduction offered by other retirement plans is not important.

Because retirement will not be their focus at that age, young adults may balk at having to give up their earnings. Parents, grandparents, or other individuals might consider funding all or part of the child's Roth contribution. It could even be in the form of a birthday or holiday gift. Take, for example, a 17-year-old who has a summer job and earns \$1,500. Although the child is not likely to make the contribution from his or her earnings, a parent could contribute any amount up to \$1,500 to a Roth IRA for the child.*

But keep in mind that young adults, like anyone else, must have earned income to establish a Roth IRA. Generally, earned income is income received from working, not through an investment vehicle. It can include income from full-time employment, income from a part-time job while attending school, summer employment, or even babysitting or yard work. The amount that can be contributed annually to an IRA is limited to the lesser of earned income or the current maximum of \$5,500.

Parents or other individuals who contribute the funds need to keep in mind that once the funds are in the child's IRA account, the funds belong to the child. The child will be free to withdraw part or all of the funds at any time. If the child withdraws funds from the Roth IRA, the child will be liable for any early withdrawal tax liability.

Consider what the value of a Roth IRA at age 65 would be for a 17-year-old who has funds contributed to his or her IRA every year through age 26 (a period of 10 years). The table below shows what the value will be at age 65 at various investment rates of return.

Value of a Roth IRA—Annual Contributions of \$1,000 for 10 years beginning at age 17				
Investment Rate of Return	2%	4%	6%	8%
Value at Age 65	\$23,703	\$55,449	\$127,900	\$291,401

What may seem insignificant now can mean a lot at retirement. Individuals who are financially able to do so should consider making a gift that will last a lifetime. It could mean a comfortable retirement for your child, grandchild, favorite niece or nephew, or even an unrelated person who deserves the kind gesture.

**Amounts contributed to an IRA on behalf of another person are nondeductible gifts by the donor and are counted toward the donor's annual \$14,000 (2014 and 2015 gift exclusion per done).*

If you would like more information about Roth IRAs or gifting contributions to a Roth on behalf of someone else, please contact this office.

Don't Overlook the Spousal IRA

Article Highlights:

- Spousal IRA
- Compensation requirements
- Maximum Contribution
- Traditional or Roth IRA

One frequently overlooked tax benefit is the "spousal IRA." Generally, IRA contributions are only allowed for taxpayers who have compensation (the term "compensation" includes: wages, tips, bonuses, professional fees, commissions, alimony received, and net income from self-employment). Spousal IRAs are the exception to that rule and allow a non-working or low-earning spouse to contribute to his or her own IRA, otherwise known as a spousal IRA, as long as the spouse has adequate compensation.

The maximum amount that a non-working or low-earning spouse can contribute is the same as the limit for a working spouse, which is \$5,500 for years 2013 through 2015. If the non-working spouse is age 50 or older, the spouse can also make "catch-up" contributions (limited to \$1,000 for 2013 through 2015), raising the overall contribution limit to \$6,500. These limits apply provided the couple together has compensation equal to or greater than their combined IRA contributions.

Example: *Tony is employed and his W-2 for 2015 is \$100,000. His wife, Rosa, age 45, has a small income from a part-time job totaling \$900. Since her own compensation is less than the contribution limits for the year, she can base her contribution on their combined compensation of \$100,900. Thus, Rosa can contribute up to \$5,500 to an IRA for 2015.*

The contributions for both spouses can be made either to a Traditional or Roth IRA, or split between them, as long as the combined contributions don't exceed the annual contribution limit. **Caution:** The deductibility of the Traditional IRA and the ability to make a Roth IRA contribution are generally based on the taxpayer's income:

- **Traditional IRAs** – There is no income limit restricting contributions to a Traditional IRA. However, if the working spouse is an active participant in any other qualified retirement plan, a tax-deductible contribution can be made to the IRA of the non-participant spouse only if the couple's adjusted gross income (AGI) doesn't exceed \$183,000 in 2015 (up from \$181,000 in 2014). This limit is phased out in 2015 for AGI between \$183,000 and \$193,000 (up from \$181,000 and \$191,000 in 2014).
- **Roth IRAs** – Roth IRA contributions are never tax-deductible. Contributions to Roth IRAs are allowed in full if the couple's AGI doesn't exceed \$183,000 in 2015 (up from \$181,000 in 2014). The contribution is ratably phased out for AGI between \$183,000 and \$193,000 (up from \$181,000 and \$191,000 in 2014). Thus, no contribution is allowed to a Roth IRA once the AGI exceeds \$193,000.

Example: *Rosa, in the previous example, can designate her IRA contribution to be either a deductible Traditional IRA or a nondeductible Roth IRA because the couple's AGI is under \$183,000. Had the couple's AGI been \$188,000, Rosa's allowable contribution to a deductible Traditional or Roth IRA would have been limited to \$2,750 because of*

the phaseout. The other \$2,750 could have been contributed to a nondeductible Traditional IRA.

Please give this office a call if you would like to discuss IRAs or need assistance with your retirement planning.

Memorizing Transactions in QuickBooks: Why? How?

QuickBooks saves time in countless ways, one of which is its ability to memorize transactions. Are you taking advantage of this feature?

One of the reasons you started using accounting software, among many others, was to save time. And QuickBooks has complied. Once you create a record for a customer, vendor, item, etc., you rarely – if ever – have to enter that information again; you simply choose it from a list.

You no longer waste time searching through endless piles of papers to find the one you need; you just do a search. And when you need a report on your monthly sales or inventory purchases or your payroll liabilities, you don't have to wrestle with Excel or locate the right paper records; you just click a few times.

Memorized transactions can be another major time saver. You might use them when you, for example:

- Provide the same service for a customer on a regular basis,
- Charge a monthly fee for rentals, maintenance, membership, etc.,
- Pay a bill to the same company regularly, or
- Have a standing order with a vendor for a similar set of items.

It's easy to create memorized transactions. QuickBooks provides an icon for them in the toolbar of every transaction form that's supported, like invoices, bills, and purchase orders.



Figure 1: When you see the **Memorize** icon in the toolbar of a transaction form, you know that you can create a template to use over and over.

To get started, create a transaction that you know will be repeated – even if the amount will be different every time (you'll still save time because you won't have to fill in or select absolutely every detail). Let's say you're doing some social media consulting for a customer, and you've contracted for eight hours every month. Create the invoice for that billing. Then click the **Memorize** icon. This window opens:



Figure 2: In the **Memorize Transaction** window, you'll tell QuickBooks how often the transaction will be created, in addition to providing other information.

Your customer will already appear in the **Name** field. You'll have to choose from among three options so that QuickBooks knows how to handle this recurring form:

Add to my Reminders List. If you choose this by clicking on the button in front of the option, QuickBooks will add this transaction to your existing **Reminders List**.

Note: Confused about how you get QuickBooks to remind you about actions you have to take? We can walk you through the setup process.

Do Not Remind Me. We don't recommend this option unless you have an exceptionally good memory, few memorized transactions, or a tickler file in another application. Even then, reminders are a good idea.

Automatic Transaction Entry. This absolutely saves the most time. It's also the riskiest option. If you select this, QuickBooks will send the transaction through at the intervals you've defined. You'll have to enter a number that indicates how many times you want the form sent and how many days in advance it should be entered. *Please consult with us if you are planning to automate transactions. We don't want you to have unhappy customers or vendors or an unpredictable cash flow.*

Next, you'll tell QuickBooks how often this transaction needs to be created by clicking on the down arrow to the right of **How Often**. Click on the calendar icon in the **Next Date** field to select the exact day this should occur next (you'll have an opportunity when you work with the **Reminders List** to specify how much advance warning you want).

When you're done, click **OK**.

Once you start memorizing transactions, QuickBooks will store them in a list. When you get a reminder that one is due soon, open the **Lists** menu and select **Memorized Transaction List**. You'll see this screen, populated with your own work:

TRANSACTION NAME	TYPE	SOURCE ACCOUNT	AMOUNT	FREQUENCY
Dental office	Invoice	11000 - Accounts Receivable	645.50	Monthly
Overhead	General Journal	13100 - Pre-paid Insurance	675.00	Monthly
Recurring Depr Entry - Monthly	General Journal	54000 - Job Expenses:54599 - Less Discounts Taken	19.50	Monthly
Sergeant Insurance	Check	10100 - Checking	675.00	Monthly

Memorized Transaction ▾ Enter Transaction

- Edit Memorized Transaction Ctrl+E
- New Group
- Delete Memorized Transaction Ctrl+D
- Customize Columns...
- Print List.. Ctrl+P
- Re-sort List

Receive Payments

Figure 3: You'll open the **Memorized Transaction** List to enter one or to work with one you've already created.

Highlight a transaction in the list and click the down arrow next to **Memorized Transaction** in the lower left corner to see your options here. You can also click **Enter Transaction**, and your original form will appear. If you've saved it with a permanent amount, you can just save and dispatch it. Otherwise, enter the correct amount before you proceed.

If you're fairly new to QuickBooks and don't feel like you're well acquainted with its time-saving features, give us a call and we'll set up some training. Better to do that up front than to have to untangle a jumbled company file. We're always happy to help.