Website news letter

**Tax Legislation**

Legislation has made some changes to certain tax compliance provisions beginning with 2016 business tax returns.

**C Corporation**----Tax returns due date for effective tax years beginning after 2015

C Corporations must file Form 1120 by the 15th day of the fourth month after the end of the tax year. Thus, calendar-year C corporations must file by April 15th of the following year.

NOTE: The new rule does not affect From1120S returns filed by the third month after the end of the tax year.

OBSERVATION: The new rule defers the due date of a C Corporation’s From 1120 by one month. C Corporation due date are April 15th.

**Partnerships**--- Tax Returns Due Date for effective tax years beginning after 2015

Partnerships must file Form 1065 by the 15th day of the third month after the end of the tax year. Thus, calendar year partnerships must file by March 15th of the following year.

OBSERVATION: The new rule accelerates the due date by one month. For calendar-year partnerships, the 2015 return will be the first return affected by the new rule (due March 15, 2017)

**Tax Returns---**Extended Due Dates

The following returns, the automatic extension period for filing the return is changed to:

* **990 (exempt orgs) 6 months**
* **1041 (trust and estates) 5 1/2 months**
* **1065 (partnerships) 6 months**
* **4720 (excise taxes) 6 months**
* **5227 (split interest trust) 6 months**
* **5500 (employee benefit plans) 3 ½ months**
* **6069 (excise taxes) 6 months**
* **8870 (certain personal benefit contracts) 6 months**

**Individual Tax Planning**

Education Tax Credits- Two of the most beneficial tax breaks for higher education expenses- the American opportunity Credit and the Lifetime Learning Credit. A taxpayer can elect to claim either (but not both) of the credits each year for the same student. However, this does not prevent a taxpayer from claiming either of the credits (or, the same credit) for different students in the same tax year.

Dependency exemption- Keep in mind that a taxpayer who claims a dependency exemption for an eligible student is the only taxpayer who can claim an education credit for the student’s qualified tuition and related expenses. However, if a taxpayer chooses to not claim a dependency exemption for the student on his return, the student may claim the education credit for qualified tuition and related expenses on his own return.

Qualified expenses- Also, any qualified expenses paid by a student who is a taxpayer’s claimed dependent are treated as paid by the taxpayer. Similarly, when parents shift eligibility for the education credit to the student by not claiming him as a dependent, the student treats qualified educational expenses paid by the parents as his own.

**Tax Planning**

**Expired Tax Provisions**

In recent years, tax planning has been complicated by the fact that many laws have been enacted only temporarily and then extended. The American Taxpayers Relief Act of 2012 at least partially fixed this problem by making a number of these provisions permanent-but not all of them. In fact, those that remain on the extenders list expired on 12/31/14 and some of them, like the Section 179 deduction and bonus depreciation, are anything but insignificant. Of course, Congress may extend some or all of these items. So if possible you should delay action until legislation is enacted. If delaying is not practical, clients should be advised of the tax consequences under both scenarios. Unfortunately. We may again be waiting to know the fate of these provisions until the end of the year.

**Individual Deductions and Exclusions**

**Educator’s Expenses**—Educators could deduct up to $250 of out of pocket costs above the line.

No provision. Deduction expired on 12/31/14

**Cancellation of Debt**—Individuals could exclude up to $2 million ($1 million of MFS) of COD income from qualified principal residence indebtedness that is canceled because of their financial condition or decline in value of the residence.

No Provision. Exclusion expired on 12/31/14

**Mortgage Insurance Premiums Deduction**—Taxpayers with AGI no greater than $109,000 could treat qualified mortgage insurance premiums as home mortgage interest. No Provision. Credit expired on 12/31/14

**Personal Energy Property Credit**—A credit (subject to a $500 lifetime cap) was available for qualified energy efficiency improvements and expenditures to a taxpayer’s principal residence.

No Provision. Credit expires on 12/31/14

**Qualified Conservation Contribution**- The deduction limit for qualified conservation contributions by individuals was increased from 230% of AGI to 50% of AGI (100% of AGI for qualified farmers and rancher) and the carryforward period for qualified contribution in excess of the AGI limit is 15 years.

No Provision. No special rules for qualified conservation contributions so they are subject to the 30% of AGI limit and have a five year carryforward period.

**Qualified Small Business Stock Gain Exclusion**- The deduction limit for qualified for 100% gain exclusion (if the holding period is met). For stock acquired during that period, the following rules also apply: None of the 60% gain exclusion rules for QSBS issued by a QBE apply. No portion of the excluded gain is added back to determine alternative minimum taxable income.

No Provision. The 100% gain exclusion for QSBS acquired after 12/31/14 is reduced to 50% (60% for QSBS issued by a qualified business entity (QBE). Also 75 of the excluded gain is an AMT Preference item.

**State and Local Sales Taxes Deduction**- Individuals could elect to deduct state and local general sales tax instead of state and local income taxes.

No Provision. Election expires on 12/31/14

**Tuition and Fees Deduction**- Individuals could claim an above the line deduction for tuition and fees for qualified higher education expenses.

No Provision. Deduction expired on 12/31/14

**Individual Retirement Accounts**

**Qualified Charitable Distributions-** Taxpayers age 70 ½ or older could make tax free transfer from an directly to a charity. Any amounts so transferred count toward the individual’s required minimum distribution, but are not deductible as charitable contributions.

No Provision. Income exclusion for QCDs expired on 12/31/14IRA

**Business Property**

**Qualified Leasehold Restaurant and Retail Improvement Property**- Qualified leasehold improvements, qualified restaurant property and qualified retail improvements were assigned a 15 year (straight line) recovery period. For 2015 the 15- year recovery period expired for property placed in service after 2014. Qualified leasehold improvements, qualified restaurant property and qualified retail improvements placed in service after 2014 are assigned a 39- year (straight-line) recovery period.

**Section 179 Deduction Limit and Eligible Property**- The section 179 deduction and qualifying property limits were $500,000 and $2,000,000, respectively. In addition, off the shelf computer software qualified for Section 179 expensing and taxpayers could amend or revoke a Section 179 election without IRS consent.

After 2014, the deduction and qualifying property limits are $25,000 and $200,000, respectively. Off the shelf software does not qualify for Section 179 expensing and the election generally is irrevocable without IRS consent.

**Section 179 Qualified Real Property**- Taxpayers could claim the Section 179 deduction on up to $250,000 of qualified real property (qualified leasehold improvements, qualified restaurant property and qualified retail improvement property).

In 2015, qualified real property is not eligible for Section 179 expensing.

**Special Bonus Deprecation**- 50% special depreciation was allowed for qualified additions placed in service in 2014. Note: For 2014 the Section 280F limit on depreciation for passenger autos was also increased by $8,000.

In 2015 special depreciation is only available for long production period property and certain aircraft.

**Tax Credits**

**Alternative Fuel Vehicle Refueling Property-** Certain alternative fuel vehicle refueling property qualified for a credit. Note: Both business and personal use property qualified for the credit.

In 2015 the credit is only available for hydrogen refueling property.

**Differential Wage Payment Credit**- A credit for differential wage payments (certain payments made to employees while they are on active duty military service) was available.

No provision in 2015. Credit expired 12/31/14

**New Energy Efficient Homes-** A credit was available to the seller of homes that neet certain energy efficiency standards.

For 2015 no provision. Credit expired on 12/31/14

**Research Credit**- A credit for the cost of increasing research activity was available.

For 2015 no provision, credit expired on 12/31/14

**Work Opportunity**- Employers were allowed a credit for wages paid to new employees who belonged to certain targeted groups.

For 2015 no provision. Credit expired on 12/31/14