Lally&Co.
CPAs and Business Advisors

The Evergreen

Quarterly Journal for Clients & Friends

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This Issue:

The Evergreen. Always Growing.

Like the evergreen oak tree, Lally & Co. is always growing. With the support and loyalty of our clients and friends we have grown into a firm of 40 individuals serving clients in many diverse fields. Our growth gives us the ability to better serve our clients and provide effective solutions to their needs. If you have questions about your business or personal tax situation, please contact us. We welcome your call and are always looking for ways to better serve you.

Contact our office or visit our website for more information.

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Dear Clients and Friends,

As we begin the new year, many clients are asking how they can prepare for the 2015 tax filing season and the 2016 tax year. This newsletter discusses certain tax planning techniques and items to be aware of in the upcoming year.

As you read through *The Evergreen*, please do not hesitate to contact us if you have questions regarding an article or regarding your business or personal tax situation. We would be happy to hear from you! This and past issues of *The Evergreen* are available on our website at http://lallycpas.com/newsletters/.

PATH Act Provides Planning Opportunities with Permanent Extensions of Many Tax Incentives

After years of routine temporary extensions, Congress has made permanent a number of previously temporary tax breaks for individuals and businesses as well as extending others. The Protecting Americans from Tax Hikes Act of 2015 (PATH Act), signed into law by President Obama in December, opens the door to new planning opportunities.

Permanent extensions for individuals

Incentives for individuals extended permanently, and in some cases modified, by the PATH Act include:

- American Opportunity Tax Credit, an enhanced version of the Hope education credit of $2,500, with adjusted gross income (AGI) phaseouts of $80,000 (single) and $160,000 (married)
- Deduction for certain expenses of elementary and secondary school teachers up to $250
- Parity for exclusion from income for employer-provided mass transit and parking benefits
- Deduction for state and local sales taxes, which is of particular interest to taxpayers living in states with low or no state income taxes
- Tax-free distributions from individual retirement plans for charitable purposes for individuals age 70 ½ and older
- Special rule for qualified conservation contributions
- Reduced earned income threshold for Additional Child Tax Credit
- Modification of the Earned Income Tax Credit

For some of the incentives, the modifications are significant. For example, the deduction for qualified expenses of elementary and secondary school teachers has been modified to include professional development expenses. Please contact our office for more details.

Permanent extensions for businesses

The PATH Act makes permanent or modifies, many popular tax incentives for businesses, including:

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Did you know?

Todd A. Sacco, J.D., CPA/PFS, a senior tax manager at Lally and Co., wrote and published an article that was featured in the Winter 2016 edition of the Pennsylvania CPA Journal. The article entitled "Tax Treatment of Pass-Through Income by Trusts" discusses the taxation of a trust's income and how the income is calculated.

Firm Announcements

Janet L. Nauer, CPA celebrated her 15th year with Lally & Co. in October 2015

Zachary E. Miles, CPA became engaged to Adrienne Wilcox in October 2015

Robert E. Septak, Jr. joined our A&A Department in November 2015 as an Audit Associate

John H. Wanner joined our Tax Department in December 2015 as a Tax Associate

Gina A. Deluliis, CPA celebrates her 20th year with Lally & Co. in January 2016

Important Dates

February 29, 2016 – 2015 Form 1099 Due

March 15, 2016 – 2015 Corporate Tax Returns Due

April 18, 2016 – 2015 Partnership Tax Returns Due

April 18, 2016 – 2015 Individual Tax Returns Due

April 16, 2016 – 2016 1st Quarter Estimated Tax Payments Due

- Enhanced expensing under Code Sec. 179 to $500,000 annually with a $2.0 million overall investment limit before phaseout
- Reduction in S corporation recognition period for built-in gains tax
- Charitable deduction for contributions of food inventory
- Research Tax Credit
- Tax treatment of certain payments to controlling exempt organizations
- Extension of basis adjustment to stock of S corporations making charitable contributions of property
- Employer wage credit for employees who are active duty members of the uniformed services
- Extension of 15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements
- Treatment of certain dividends of regulated investment companies
- Exclusion of 100 percent of gain on certain small business stock
- Subpart F exception for active financing income
- Temporary minimum low-income housing tax credit rate for non-federally subsidized buildings
- Military housing allowance exclusion for determining whether a tenant in certain counties is low-income
- Extension of RIC qualified investment entity treatment under FIRPTA

As with the individual incentives, some of the modifications to the business incentives are significant. The research tax credit is not only made permanent, it is enhanced for small businesses. Expensing under Code Sec. 179 is made permanent at generous dollar and investment limitations that are now indexed for inflation. Previous limitations for the employer credit for activated reservists are relaxed. For more details, please contact our office.

More incentives extended

The PATH Act did not leave out the rest of the traditional extenders. However, lawmakers did not make these remaining tax breaks permanent. Extended for several years (in some cases through 2019, in other cases through 2016) are:

- Bonus depreciation of 50% for 2015-2017, 40% in 2018, and 30% in 2019;
- Work Opportunity Tax Credit (WOTC) through 2019; and
- Special expensing rules for television and film productions through 2016.

Because the extensions are not uniform, as mentioned, some tax breaks are extended through 2019 and others are extended through 2016, careful planning is vital.

IRS Gets Budget Boost to Improve Customer Service and Cyber-security, Curb Identity Theft

Going into the 2016 filing season, the IRS has additional monetary resources to improve customer service and cyber-security along with curbing identity theft. The fiscal year (FY) 2016 omnibus spending bill approved by Congress and signed into law by President Obama in December, allocates $290 million above FY 2015 funding to the IRS with instructions of where to spend the funds: customer service, tax-related identity theft and refund fraud, and cyber-security.

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Customer service

During the 2015 filing season, many taxpayers and tax professionals were very frustrated with customer service at the IRS. The National Taxpayer Advocate discovered that less than 40 percent of all calls to IRS customer service representatives were answered. The average wait time to speak with an IRS employee stretched past 20 minutes. Further, the IRS increased its use of so-called "courtesy disconnects," which occurs when the IRS disconnects an incoming call because its phone lines are overloaded. According to the National Taxpayer Advocate, the IRS disconnected more than eight million calls from taxpayers during the 2015 filing season.

Lawmakers became aware of the customer service challenges at the IRS over the course of several hearings during 2015. IRS Commissioner John Koskinen and other officials said that the agency "had to do more with less." Speaking in November, Koskinen said that without more funding, customer service would be worse in 2016. The FY 2016 omnibus authorizes more funding for 1-800 help line services for taxpayers. Congress directed the IRS to make improving telephone service a priority and to enhance response times.

Identity theft

Tax-related identity theft occurs when a criminal uses the personal identification information of a taxpayer to file a return claiming a fraudulent refund. Typically, refund fraud occurs early in the filing season. The taxpayer files a legitimate return and discovers that his or her identity has been stolen.

In response, the IRS has continuously upgraded its processing filters to uncover fraudulent returns. The agency has also partnered with state tax authorities and private sector tax software vendors and launched public education campaigns about tax-related identity theft. The FY 2016 omnibus authorizes more funding to improve the identification and prevention tax-related identity theft and refund fraud.

Cyber-security

In 2015, the IRS acknowledged that cyber-criminals hacked its popular online Get Transcript app. The app enables taxpayers to obtain line-by-line return information. Criminals, the IRS explained, have used this information to file false returns that claim tax items similar to those items that taxpayers have claimed in the past and to generate fraudulent refunds. The FY 2016 omnibus appropriates more funding to enhance cyber-security to safeguard taxpayer data.

Changes in Tax Filing Deadlines for the 2015 & 2016 Tax Years

When the Surface Transporatation and Veterans Health Care Choice Improvement Act, more commonly known as the “Highway Bill,” was signed into law on July 31, 2015, the additional funding for the highway trust fund authorization was provided by several compliance related tax provisions, including a provision changing several tax filing deadlines.

Changes in tax filing deadlines

The Highway Bill changes the following tax return filing deadlines:

- For calender year partnerships and S corporations, the filing deadline for tax returns beginning after December 31, 2015 will be March 15th, or for non-calender year filers, the 15th day of the third month after the close of the fiscal year
- For calender year C corporations, the filing deadline for tax returns beginning after December 31, 2015 will be April 15th, or for non-calender year filers, the 15th day of the fourth month after the close of the fiscal year

A special rule does apply for C corporations with a fiscal year ending June 30th. For these taxpayers, the new law will apply only to returns for tax years after 2025. This means that the tax return due dates will continue to be two and a half months after the close of the fiscal year (September 15th).

In addition to the special rule for June 30th C corporation filers, the law modifies the automatic filing extension for C corporations for tax years beginning after 2015 and through 2025. The modifications provide:

- An automatic five-month extension for calender year C corporations
- An automatic seven-month extension for C corporations with a June 30th fiscal year-end
- An automatic six-month extension for other fiscal year C corporations

Beginning with 2026 tax returns, there will be an automatic six-month extension for all C corporations.

Other changes

The law also directs the Treasury Secretary to make modifications to the regulations governing due dates and extensions for tax years beginning after 2015. Some of the highlights of that directive are:

- The maximum extension for partnerships filing Form 1065 tax returns will be a six-month period ending September 15th for calender year taxpayers

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- The maximum extension for trusts filing Form 1041 tax returns will be a five-and-a-half-month period ending September 30th for calender year taxpayers
- The maximum extension for organizations exempt from income tax that are filing Form 990 series tax returns will be an automatic six-month period ending November 15th for calender year tax filers
- The due date of FinCEN Form 114, also known as "FBAR," will be April 15th (rather than June 30th), but will also include a maximum extension for a six-month period ending on October 15th

What are the 2016 Optional Standard Mileage Rates for Automobile Use?

The IRS has issued the 2016 optional standard mileage rates for calculating the deductible costs of operating an automobile for business, charitable, medical, and moving purposes (Notice 2016-1; IR-2015-137). The decline in gas prices appeared to spur the drop in the optional rates.

The optional standard mileage rate for business will drop from 57.5 cents a mile (for 2015) to 54 cents a mile for 2016, a decrease of 3.5 cents, and the lowest rate in five years. The optional standard mileage rates for medical and moving expenses drops from 23 cents for 2015 to 19 cents per mile for 2016, a decrease of four cents and, again, the lowest rate in five years. The optional standard mileage rate for charitable expenses, which is set by statute, remains at 14 cents per mile for 2016.

Rules for use

Rev. Proc. 2010-51 provides rules for computing deductible costs of operating an automobile, including the use of the optional standard rates. The business standard mileage rate is a substitute for all the costs of an automobile for business use, including depreciation, maintenance and repairs, and gasoline. Expenses such as parking and tolls are in addition to the standard rate.

However, a taxpayer may not use the business standard mileage rate after using a depreciation method under Code Sec. 168 or after claiming the Code Sec. 179 deduction for that vehicle. Furthermore, a taxpayer may not use the business rate for more than four vehicles at a time.