

Earned Income Credit					
		0 Children	1 Child	2 Children	3+ Children
2	Earned Income Amount	\$6,580	\$9,880	\$13,870	\$13,870
0	Maximum Credit	\$503	\$3,359	\$5,548	\$6,242
1	Threshold Phase-out (Single or HOH)	\$8,240—\$14,820	\$18,110—\$39,131	\$18,110—\$44,454	\$18,110—\$47,747
5	Completed Phase-out (Married Filing Joint)	\$13,750—\$20,330	\$23,630—\$44,651	\$23,630—\$49,974	\$23,630—\$53,267
2	Earned Income Amount	\$6,610	\$9,920	\$13,930	\$13,930
0	Maximum Credit	\$506	\$3,373	\$5,572	\$6,269
1	Phase-out (Single or HOH)	\$8,270—\$14,880	\$18,190—\$39,296	\$18,190—\$44,648	\$18,190—\$47,955
6	Phase-out (Married Filing Joint)	\$13,820—\$20,430	\$23,740—\$44,846	\$23,740—\$50,198	\$23,740—\$53,505

Excessive Investment Income—For taxable years beginning in 2013, the earned income tax credit is not allowed if the aggregate amount of certain investment income exceeds \$3,400.

2016 Alternative Minimum Tax			
	Single	MFJ	MFS
Excess Taxable Income Above Which 28% Tax Rate Applies	\$186,300	\$186,300	\$93,150
Exemption Amount	\$53,900	\$83,800	\$41,900
Amounts Used to Determine Phase-out of Exemption Amount	\$119,200	\$158,900	\$79,450

2016 Eligible Long-Term Care Premiums	
Attained Age Before Close of Year	Limitation Amount
40 or less	\$390
More than 40 but not more than 50	\$735
More than 50 but not more than 60	\$1,460
More than 60 but not more than 70	\$3,900
More than 70	\$4,870

Section 179 Expense

For tax years beginning in 2016, the aggregate cost of any Section 179 property a taxpayer may elect to treat as an expense cannot exceed \$25,000. This limit is reduced (but not below zero) by the amount the cost of Section 179 property placed in service during the 2016 tax year exceeds \$200,000.

2016 Medical Savings Accounts		
Definition of "High Deductible Health Plans"		
	Annual Deductible	Annual Out-of-Pocket Expense
Self-Only Coverage	Not less than \$2,250 Not more than \$3,350	Does Not exceed \$4,450
Family Coverage	Not less than \$4,450 Not more than \$6,700	Does Not exceed \$8,150

2016 Education Credits

Hope Scholarship Credit (American Opportunity Tax Credit)—Credit will be an amount equal to 100% of qualified tuition and related expenses not in excess of \$2,000, plus 25% of expenses in excess of \$2,000, but not in excess of \$4,000. So, the maximum Hope Scholarship Credit allowable for 2016 is \$2,500. Income restrictions do apply and for 2016, those kick in for modified adjusted gross income (MAGI) in excess of \$80,000 (\$160,000 for a joint return). This credit is completely phased out with MAGI in excess of \$90,000 (\$180,000 for joint return).

Lifetime Learning Credit—For 2016, the income restrictions begin with taxpayers with modified adjusted gross income in excess of \$55,000 (\$110,000 for a joint return). This credit is completely phased out with MAGI in excess of \$65,000 (\$131,000 for a joint return).

Coverdell Educational Savings Accounts

You can't deduct the cost of elementary or secondary school tuition. But, there is one tax break that can help cover those bills. Coverdell Educational Savings Accounts permit taxpayers to contribute to an account from which withdrawals (including earnings) can be used tax free to pay for qualified education expenses including tuition, books, supplies, and uniforms. Up to \$2,000 a year can be deposited in a Coverdell for any number of beneficiaries. Contributions are not deductible, but withdrawals can be used for elementary and high school expenses as well as for the cost of higher education. Taxpayers with AGI over \$110,000 on a single return or \$220,000 on a joint return can't contribute to a Coverdell.

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Taxing Topics

2015 — 2016 Edition

Letter to Clients

Well, this has already been a busy tax season. Everything crept up so fast. So, needless to say, this annual mailing is getting out a little late. With the time constraints I was under, instead of including a separate cover letter to each client, I have summarized enclosure in this article. This year I have included:

- ◆ Income Tax Tables Insert—one side shows 2015 rates, while the other side shows 2016 rates.
- ◆ 2015 Income Tax Check List—will help in the preparation of your tax return and show you what documentation to gather before completing the return. Please use this form to let me know if any of your information has changed since last year.
- ◆ 2016 Annual Calendar—transparent dates are 2016 holidays and the background painting is compliments of my husband Keith and Lonesome Meadows Art Studio (www.lonesomemeadows.com). On the back side of this calendar is a perpetual calendar that will allow you to look up any date to see what day of the week it was or will be.
- ◆ Customer Referral Coupons—there is space on the back of the coupon for you to write your name and phone number and the name and phone number of your referral. Although the actual coupon is very helpful to ensure all credits are applied properly, they are not necessary to receive the credit.

Again, thank you for your support and for helping to make 2015 my best year since starting the business. I look forward to a continuing relationship with you.

Cindy

Cindy L. Meadows—Owner/Accountant

2015 E-Filing Starts
Tuesday
January 19, 2016

Tax Deadlines & Extensions

This year you have a couple extra days to get your tax year 2015 returns filed. The regular filing deadline is Monday, April 18, 2016. This is due to a holiday recognized in Washington, DC—Emancipation Day. This holiday celebrates the anniversary of president Abraham Lincoln signing the Compensated Emancipation Act on April 16, 1862. Since April 16th is on a Saturday this year, the holiday is observed on Friday, April 15th, which pushes the tax deadline ahead 3 extra days. And, the deadline for filing extensions is October 17, 2016—giving you 2 extra days.

Partnerships and S corporations must now file returns by March 15, 2016 and C corps are due April 15, 2016.

RUSH FEE—If you provide me your return information **7 days or less before deadline**, and you still want the return filed on time, then a **rush fee of \$50** will be assessed.

I have been very lenient on this and have not charge this fee to most clients. And, for those I did, the tax information was received 4 days or less before the deadline. This year, I will be charging the fee for **ALL** clients not meeting the deadlines.

Payments For Tax Returns

ALL tax returns will have to be paid for at the time they are completed and before they are electronically filed, unless other arrangements have been made. **I can no longer allow clients to wait to pay until the refund is received.**

2015 & 2016 Key Information

I have chosen to use the same format as I did last year to present this information to you. The information is setup in tables with 2015 and 2016 figures side by side. This way, you can better see the changes from one year to the next. Although the 2015 figures are used to prepare your current return due April 18, 2016, the 2016 figures provided may help in making financial decisions in the coming year.

Itemized Deduction Limitations		
	2015	2016
Single	\$258,250	\$259,400
Head of Household	\$284,050	\$285,350
Married Filing Joint	\$309,900	\$311,300
Married Filing Separate	\$154,950	\$155,650
The limitation reduces the deduction by 3% of AGI which is over thresholds—maximum reduction of 80%. Itemized deductions for certain medical expenses, investment interest, casualty, theft, or gambling losses are exempt from phase-out.		

Personal Exemptions & PEP		
	2015	2016
Base Amount	\$4,000	\$4,050
Phase-Out Begins with AGI	\$258,250 Single \$284,050 HOH \$309,900 MFJ \$154,950 MFS	\$259,400 Single \$285,350 HOH \$311,300 MFJ \$155,650 MFS
Phase-Out Complete with AGI	\$380,750 Single \$406,550 HOH \$432,400 MFJ \$216,200 MFS	\$381,900 Single \$407,850 HOH \$433,800 MFJ \$216,900 MFS
The phase out is 2% for each \$2,500 (or fractional portion of \$2,500) (\$1,250 for MFS taxpayers) by which AGI for the year exceeds the threshold amounts above.		

Standard Mileage Rates (SMR)		
	2015	2016
Business	57.5¢	54¢ ↓
Medical/Moving	23¢	19¢ ↓
Charitable	14¢	14¢
You always have the option of using actual costs rather than the SMR. If you want to use the SMR, you must use it in the first year of vehicle business use. In later years, you can choose to use either the SMR or actual expense.		

Adoption Credit—For 2016, the credit allowed for an adoption of a child with special needs is \$13,460, and the maximum credit allowed for other adoptions is the amount of qualified adoption expenses up to \$13,460. Phase-outs do apply beginning with modified adjusted gross income (MAGI) in excess of \$201,920 and completely phased out with MAGI of \$241,920 or more.

Standard Deductions		
	2015	2016
Single & Married Filing Separate	\$6,300	\$6,300
Head of Household	\$9,250	\$9,300
Married Filing Joint	\$12,460	\$12,600
Dependent of Another Taxpayer	Greater of \$1,050 OR \$350 + earned income	Greater of \$1,050 OR \$350 + earned income
Additional Deduction for the Aged or Blind	\$1,250 Married \$1,550 Single	\$1,250 Married \$1,550 Single

Other Information		
	2015	2016
Child Tax Credit—Maximum Refundable	\$3,000	\$3,000
Foreign Earned Income Exclusion	\$100,800	\$101,300
Kiddie Tax Threshold (amount child can make without paying tax)	\$1,050	\$1,050
Gift Tax Exclusion	\$14,000	\$14,000
Flexible Spending Account Contribution Limit	\$2,550	\$2,550
Student Loan Interest Deduction Maximum & Phase-out Limits	\$2,500 Max \$65,000— \$80,000 Single \$130,000— \$160,000 MFJ	\$2,500 Max \$65,000— \$80,000 Single \$130,000— \$160,000 MFJ
Social Security Wage Base Limit & Maximum Amount of Tax	\$118,500 \$7,347.00 Max	\$118,500 \$7,347.00 Max

"Obamacare" Penalties			
	2014	2015	2016
Penalty for Not Buying Health Insurance	\$95 or 1% of MAGI	\$325 or 2% of MAGI	\$695 or 2.5% of MAGI
Average Penalty*	\$190	\$661	\$969
*Source: H&R Block & Kaiser Family Foundation estimates.			

Don't forget — Refer a friend and you both get a \$10.00 credit!

Retirement Plans

The retirement contributions limits and catch-up contribution limits will not change and will remain the same for 2015 and 2016. However, some of the phase out limits will go up. At the printing of this newsletter, the IRS had not published all the phase out figures, but for 2016, the Roth IRA phase out for married filing joint is \$184,000—\$194,000 (up from \$183,000-\$193,000) and for single and head of household the phase out is \$117,000-\$132,000 (up from \$116,000-\$131,000).

Retirement Plan Limits		
	Contribution Limit	Catch-up Contribution Limit
ROTH IRA, 401(K) & 403(B) Plans	\$18,000	\$6,000
Traditional IRA	\$5,500	\$1,000
SIMPLE Accounts	\$12,500	\$3,000
SEP Accounts	25% of compensation or \$53,000	Not Permitted

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Distributions

You have to start taking minimum distributions from your IRA, SIMPLE IRA, SEP IRA or retirement plan account when you reach age 70-1/2. Roth IRAs do not require withdrawals until after the death of the owner.

REMINDER: The tax consequences of withdrawing funds from your retirement accounts can be devastating. If you do this, and they withhold tax from your distribution (even 20%), that doesn't mean your taxes are paid in full. There is a 10% penalty for early withdrawal, plus the tax on your adjusted gross income for the year. Your adjusted gross income will be increased by the amount of the distribution from your retirement plan. If you withdraw a large amount, this may even push you into a higher tax bracket. Also, whenever you receive a 1099-R from a retirement plan, the figures must be reported to the IRS on you Form 1040.

Simplified Employee Pension Plans (SEPs)

Looking for an easy and low-cost retirement plan—consider a SEP plan. These plans can provide a significant source of income at retirement by allowing employers to set aside money in retirement accounts for themselves and their employees. Under a SEP, an employer contributes directly to traditional individual retirement accounts (SEP-IRAs) for all employees (including themselves). A SEP does not have the start-up and operating costs of a conventional retirement plan and allows for a contribution of up to 25% of each employee's pay or \$53,000.

Advantages of a SEP

- ⇒ Contributions to a SEP are tax deductible and your business pays no taxes on the earning on the investments.
- ⇒ You are not locked into making contributions every year. In fact, you decide each year whether, and how much, to contribute to your employees' SEP-IRAs.
- ⇒ Generally, you do not have to file any documents with the government.
- ⇒ Sole proprietors, partnerships and corporations, including S corporations, can set up SEPs.
- ⇒ You may be eligible for a tax credit of up to \$500 per year for each of the first 3 years for the cost of starting the plan.
- ⇒ Administrative costs are low.

Definitions

Employee—An "employee" is not only someone who works for you, but also includes you if you receive compensation from the business.
Eligible Employee—An employee who: is at least age 21, and has performed service for you in at least 3 of the last 5 years. All eligible employees must participate in the plan, including part-time employees, seasonal employees and employees who die or terminate employment during the year.
Compensation—Generally includes the pay an employee received from you for a year's work.

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Retirement Savings Contributions Credit						
	AGI Limit for . . .					
	50% Credit		20% Credit		10% Credit	
	2015	2016	2015	2016	2015	2016
Single	\$18,250	\$18,500	\$19,750	\$259,400	\$30,500	\$30,750
Head of Household	\$27,375	\$27,750	\$29,625	\$285,350	\$45,750	\$46,125
Married Filing Joint	\$36,500	\$37,000	\$39,500	\$311,300	\$61,000	\$61,500
Married Filing Separate	\$18,250	\$18,500	\$19,750	\$155,650	\$30,500	\$30,750