

Members of the Iowa Society of Certified Public Accountants (ISCPA) Taxation Committee have developed these tax tips for planning and preparing individual income tax returns for the 2016 tax year. Content is based on tax law as of Oct. 1, 2016. As of Dec. 31, 2015, several Iowa tax breaks expired. The Iowa Legislature could extend many of these expired tax provisions effective for 2016. The committee recommends you consult your CPA. CPAs have the necessary training and expertise to assist you with your tax and financial planning needs.

Federal Tax Tips

Tax Scams – The IRS does not contact taxpayers by email to request personal or financial information. The IRS will never make threatening phone calls or require you to make payments by debit or credit cards. If you have questions, call the IRS at 800-829-1040 and an IRS representative will assist you. To report a fraud, call 800-366-4484.

Itemized Deductions vs. Standard Deduction – If you are under age 65, consider itemizing when deductions exceed:

- \$6,300 for a single person
- \$9,300 for a head of household
- \$12,600 for married filing jointly or qualifying surviving spouse
- \$6,300 for married filing separately

Note: The standard deduction is increased if you are 65 or older and/or blind.

Consider alternating between taking the standard deduction and itemizing your deductions by prepaying certain expenses every other year.

Reduction of Itemized Deductions – Itemized deductions may be reduced up to 80 percent for high income taxpayers.

Personal Exemptions – Up to \$4,050 may be exempted for each qualifying individual.

Capital Gains and Qualified Dividends – The following rates apply to qualified dividends or capital gains held more than 12 months:

Tax Bracket	Rate
10-15 percent	0 percent
25-35 percent	15 percent
39.6 percent	20 percent

Additional Tax on High Income Taxpayers – Individuals with more than \$200,000 in income or \$250,000 for married filing jointly will:

- Pay an additional 3.8 percent tax on net investment income
- Pay an additional 0.9 percent Medicare tax on earned income

Disability Income – Disability income may be taxable.

Gambling Winnings/Losses – All gambling winnings must be reported as taxable income. Substantiated gambling losses up to the amount of your winnings may be deducted under miscellaneous itemized deductions.

Kiddie Tax – This tax applies to certain children under age 24.

Self-Employed (SE) Individuals –

- Half of SE taxes are deductible from adjusted gross income (AGI) on the first page of Form 1040
- A retirement plan may be established by individuals with SE income
- Up to 100 percent of health insurance including certain qualified long term care premiums may be deducted from AGI on the first page of Form 1040
- Special first year depreciation under Section 179, for qualified property, is allowed up to \$500,000
- Bonus depreciation of 50 percent is allowed for qualified new property

Standard Mileage Rates – The following rates per mile are allowable for the substantiated use of your automobile:

Purpose	Rates
Business	54 cents
Medical/ Moving	19 cents
Charitable	14 cents

Moving Costs – For a work related move that is more than 50 miles, you may deduct the cost of transporting your family and belongings, including lodging during transport but not meals.

Take Advantage of Your Home – You may deduct mortgage interest, points paid to acquire or improve a primary residence and property taxes.

Points paid on refinanced mortgages must be deducted over the life of the loan. Gain on the sale of a principal residence may be tax free, but a loss is generally not deductible. If you use your home for business, additional deductions may be available.

Medical and Drug Expenses – Taxpayers under the age of 65 may deduct qualified medical expenses if they itemize to the extent that the total of such expenses exceeds 10 percent of AGI. Those 65 and over may deduct such expenses to the extent that the total exceeds 7.5 percent of AGI.

Health Savings Accounts (HSAs) – An HSA is a qualified savings account set up for certain out of pocket medical expenses for a taxpayer and immediate family. It requires a high deductible health insurance plan (and no enrollment in Medicare) which may save on the cost of the premium as well as tax dollars. An individual may qualify to make one irrevocable rollover election from an IRA to an HSA during their lifetime.

Maximize Employer Benefit Plans – Employee contributions to employer sponsored retirement plans allow you to defer current compensation, receive tax deferred growth, and possibly obtain employer-matching contributions. If you are 50 or over, you may contribute higher amounts. Cafeteria plans or flexible spending accounts allow you to pay for certain items such as childcare and medical expenses with pretax dollars.

Retirement/Pension Plans – If you plan to withdraw or are eligible to receive a distribution from your retirement account, a CPA can assist you in choosing the best alternative. If you choose to rollover your retirement account, the transfer should be made directly to an IRA or another qualified plan; otherwise, the plan administrator will be required to withhold tax from the amount transferred.

Required Minimum Distributions (RMDs) – Generally, you must begin receiving annual RMDs from retirement plans and IRA accounts, excluding Roth IRAs, no later than April 1 of the year following the year in which you reach age 70½. Thereafter distributions are required annually by Dec. 31.

Traditional and Roth IRAs – You have until April 18, 2017, to contribute up to \$5,500 per

person to a traditional IRA or a Roth IRA for 2016 subject to income limitations. If you are 50 or over, you may contribute an additional \$1,000. Contributions to a regular IRA may be deductible. Contributions to a Roth IRA are not deductible.

Charitable IRA Distributions – IRA owners who are 70½ or older may donate any portion, up to \$100,000, of the distribution directly to a qualified charity(ies). Note: this may satisfy the RMD requirement.

Indirect IRA Rollover Limitations – An IRA or retirement distribution paid directly to you must be rolled over within 60 days. Only one rollover from an IRA to another (or the same IRA) can be made in any 365-day period. Direct trustee to trustee transfers have no limitations.

Child Tax Credit – A \$1,000 per child tax credit for children under 17 may be allowable subject to income limitations. Refunds will be delayed until after Feb. 15 when claiming this credit.

Earned Income Credit (EIC) – A refundable credit is available to low income taxpayers with earned income and who meet certain income thresholds. Refunds will be delayed until after Feb. 15 when claiming this credit.

Retirement Savers Credit – Eligible taxpayers may receive a non-refundable tax credit of up to 50 percent of \$4,000 contributed to a qualifying retirement plan.

Energy Tax Credits – Energy credits are available for qualified home improvements. Specific guidelines for the tax credits can be found at www.energystar.gov.

Education Tax Benefits – The American Opportunity Credit allows a partially refundable tax credit of up to \$2,500 for the first four years of college. A Lifetime Learning Credit of up to \$2,000 may also be available. Alternatively, a Tuition and Fees Deduction of up to \$4,000 may be available. For educational savings for future expenses, ask your CPA about tax benefits of a 529 savings plan or an education IRA.

Gift Tax Return – If you have given cash or property to an individual or trust, you may need to file a gift tax return. For 2016, you may gift up to \$14,000 per individual without filing a return. Although, you may want to consider filing this return even if it is not required.

Social Security Benefits – The best time to receive Social Security benefits depends upon individual circumstances. A portion of your benefits may be taxable if your income exceeds certain limits.

Miscellaneous Federal Tax Credits – A partial list of other federal credits available include dependent childcare, non-highway fuel tax, foreign tax, retirement and adoption. You may access a listing at www.irs.gov/credits-deductions/individuals.

Iowa Tax Tips

Iowa treats many items differently than the IRS. Please consult your tax advisor.

Refund Opportunities – Married couples, both with income, may find it beneficial to file using married filing separately on a combined return. 2013-2015 tax returns may be amended to reflect a change in filing status.

Military Personnel – Certain military pay has preferential treatment for Iowa income tax purposes.

Military Retirement Benefits Exclusion – Military retirement benefits and military survivor benefits are exempt from Iowa income tax. The exemption is in addition to the pension exemption.

Pension Exemption – An exemption of up to \$12,000 for married taxpayers and \$6,000 for other filers is available to eligible Iowa taxpayers for certain kinds of retirement income.

Social Security – Iowa does not tax Social Security benefits for regular income tax; however, it is included in the alternate tax calculation and is used in determining if a tax return must be filed.

Itemized Deductions vs. Standard Deduction – Either method may be used regardless of which method was used on your federal return.

The Iowa standard deduction for married filing jointly or head of household is \$4,860; all other filers may each deduct \$1,970.

Exceptions to itemizing deductions on your Iowa return are:

- Iowa income taxes are not deductible, except for school district surtax
- Expenses of caring for a disabled relative are deductible
- Adoption expenses are deductible, even if no benefits are recognized on the federal return.
- Charitable mileage is 39 cents per mile

College Savings Iowa – Each taxpayer has until May 1, 2017, to contribute up to \$3,188 per beneficiary for a 2016 deduction of qualified higher education expenses. For more information visit www.collegesavingsiowa.com.

Health and Long Term Care Insurance – 100 percent of qualified premiums paid with after tax dollars may be deducted even if you do not itemize deductions.

Volunteer Firefighter, Emergency Medical Services Personnel and Reserve Peace Officer Tax Credit – The tax credit equals \$100 if the volunteer served an entire tax year. If the volunteer did not serve the entire year, the \$100 credit will be prorated based on the number of months that the volunteer served.

Tuition and Textbook Credit – The credit is 25 percent of the first \$1,000 paid for tuition, textbooks, and qualified extracurricular activities for each dependent attending an accredited elementary through secondary school in Iowa. A detailed list of qualifying expenses can be found at <https://tax.iowa.gov/>.

Geothermal and Solar Credits – Limited and non-refundable geothermal and solar credits are available for Iowa if you qualify for federal. These credits are available for tax years 2013-2016.

Iowa Tax Credits – There are numerous Iowa credits available. These include, but are not limited to:

- Adoption tax credit and farm to food donation tax credit
- \$40 exemption credit for each individual; additional credits for those 65 and over and/or blind
- Credits for non-residents and partial year residents (including taxes paid to other states and foreign governments)
- Childcare credit
- School tuition organization credit
- Endow Iowa credit
- Taxes paid on certain motor vehicle fuels.
- In addition, a percentage of the federal Earned Income Credit (EIC) is refundable in Iowa.

You may access a complete listing of Iowa tax credits on the Iowa Department of Revenue website at <https://tax.iowa.gov/> and search for Iowa tax credits.

E-filing Tax Returns

Paid preparers are mandated to file most returns electronically. E-filed returns result in faster refunds and acknowledgement that the return has been filed.

Even if you are not required to file a federal or a state tax return, you may want to file if you are eligible for a refund and wish to receive it.

Recordkeeping

Generally, the statute of limitations for examination of a tax return is three years. In many instances, it may be significantly longer. The ISCPA Tax Committee recommends tax returns be saved indefinitely. Consult your CPA to review your situation.

Any tax advice contained in this communication (including any attachments or other accompanying materials) was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer by any governmental taxing authority agency.



Certified Public Accountants and Financial Advisors

A PROFESSIONAL CORPORATION
A FEE-ONLY REGISTERED INVESTMENT ADVISOR

5526 N.W. 86th Street, Suite A

Johnston, IA 50131

Phone: (515)270-2727

Fax: (515)270-1509

Steve@KaneCompanyPC.com

2016 Tax Tips

ISCPA
IOWA SOCIETY OF CPAs