

# Tax Tidbits



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## Fake Tax Bills

In September of this year, the Internal Revenue Service and its Security Summit partners issued an alert to taxpayers and tax professionals to be on guard against fake emails purporting to contain an IRS tax bill related to the Affordable Care Act (ACA).



The IRS has received numerous reports around the country of scammers sending fraudulent versions of CP2000 notices for tax year 2015. Generally, the scam involves an email that includes the fake CP2000 as an attachment. The issue has been reported to the Treasury Inspector General for Tax Administration for investigation.

The CP2000 is a notice commonly mailed to taxpayers through the United States Postal Service. It is never sent as part

of an email to taxpayers. The indicators are:

- These notices are being sent electronically, even though the IRS does not initiate contact with taxpayers by email or through social media platforms.
- The CP2000 notices appear to be issued from an Austin, Texas, address.
- The underreported issue is related to the ACA requesting information regarding 2014 coverage.
- The payment voucher lists the letter number as 105C.

The fraudulent CP2000 notice includes a payment request that taxpayers mail a check payable to the "I.R.S." to the "Austin Processing Center" at a post office box address. This is in addition to a "payment" link within the email itself.

A legitimate CP2000 notice is generated by the IRS Automated Underreporter Program when income reported from third party sources such as an employer does not match the income

reported on the tax return. It provides extensive instructions to taxpayers about what to do if they agree or disagree that additional tax is owed.

It also requests that a check be made out to the "United States Treasury" if the taxpayer agrees additional tax is owed. If taxpayers are unable to pay, it provides instructions for payment options such as installment payments.

Taxpayers and tax professionals should always beware of any unsolicited email purported to be from the IRS or any unknown source. They should never open an attachment or click on a link within an email sent by sources they do not know. As always, if you are in receipt of a notice from the IRS or any tax authority, contact the tax and business services office at Valicenti Advisory Services, Inc.

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## New Overtime Rule

**O**n May 18, 2016, the United States Department of Labor was directed to update the new overtime rule which will become effective on December 1, 2016. This timeline gave employers six months to prepare for this change. This long awaited update will result in a meaningful boost to many workers and is to ensure every worker is compensated fairly for his/her hard work. This rule focuses primarily on updating the salary and compensation that will put more money in the pockets of middle class workers or give them more free time. The Key Provisions for the Overtime Rule:



- Raises the salary threshold indicating eligibility from \$455/week to \$913 (\$47,476 per year), ensuring protection to 4.2 million workers.

- Automatically updates the salary threshold every three years, based on wage growth over time, increasing predictability.
- Strengthens overtime protection for salaried workers already entitled to overtime.
- Provides greater clarity for workers and employers.

The increase in the salary threshold level is the first since 2004. The final rule will raise the standard salary threshold to equal the 40th percentile of weekly earnings for full-time salaried workers in the lowest wage census region, currently the South.

Every year that the threshold remains unchanged, it covers fewer and fewer workers as wages overall increase over time. The Department's final rule will fix this by automatically updating the salary threshold every three years, beginning January 1, 2020.

Under this rule, "work-life balance" will improve, employment will increase

by spreading work, worker's health will improve and productivity will increase all due to improved morale and reduced turnover. In response to the new overtime rule, employers can:

- Pay time and a half for overtime work
- Raise workers' salaries above the new threshold
- Limit workers' hours to 40 per week
- Some combination of the above

Newly overtime eligible workers who currently work overtime will, on average, work fewer hours and earn more as a result of the rule. For more information on the Overtime Final Rule, see [www.dol.gov/overtime](http://www.dol.gov/overtime).

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Evelyn L. Bristol  
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## Changes to the Affordable Care Act for 2017

**W**ith the Presidential election just days away, and a new President being sworn into office on January 20, 2017, we may expect that changes to the Affordable Care Act (ACA) will be on the horizon. We all wait in anticipation, as the significance and timing of any changes are dependent on who is elected to office.



As things stand now, according to a report from [flexiblebenefit.com](http://flexiblebenefit.com), the ACA is expected to see the following changes for 2017:

- Reporting requirements for 2017 will be earlier than they have been in the past. Employers with group health plans will be required to give their employees copies of forms 1095-B and/or 1095-C by January 31, 2017. Reporting to the IRS is due on February 28 for manual filers and March 31 for electronic filers.

- The individual penalty for not having health insurance in 2017 is slated to be \$695 and is anticipated to be adjusted for inflation with a maximum penalty of 2.5% of an individual's income.
- The IRS has not yet officially confirmed it, but employer penalties are expected to be increased for inflation as well. Under Code Section 4980H(a), the penalty is projected to be \$2,260 and \$3,390 per employee under section(b).
- The "dough-nut" hole under Medicare Part D will continue to shrink. While in the "dough-nut" hole phase, beneficiaries will pay 40% of drug costs for brand name drugs and 51% of drug costs for generic drugs.
- In 2017, the maximum out-of-pocket limit for non-grandfathered plans will increase to \$7,150 for individuals and \$14,300 for families.
- Coverage under a transitional health plan can continue to be renewed until October 1, 2017, but coverage cannot extend past December 31, 2017.

Please note that we represent many lines of insurance and our current licensed agents have combined experience of over 75 years. We would welcome the opportunity to meet with you, to discuss our services and how we may help you with your insurance needs. Please contact us at [info@valicentiins.com](mailto:info@valicentiins.com) or a phone call to (607) 215-0242 to schedule a meeting.

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Kate L. Schermerhorn  
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## Political Season Realizations

The heart of most financial allocation decisions is the trade-off between expected return and risk. When examining the return side of the trade-off, the tax rate applied to financial gains naturally is a factor. The variables in play are the tax rate on capital gains and dividends, the duration the financial asset was held and the level of one's overall income. It is political season, so let's take a look at the respective Presidential candidates' proposed tax plans and focus more specifically on how capital gains are to be treated. The election outcome will be upon us shortly and it is important to note that these are just candidate plans at this point and not current law. It may, however, give us insight into where the legislative debate will go in the near future and how expected returns for certain investment decisions may be impacted as a result.

Current tax law for most investors applies a 15% rate to long-term realized capital gains on investments held over one year. Gains realized before one year are taxed as ordinary income. For 2016, single filers with taxable income over \$415,050 and married filers filing jointly with taxable income over \$466,950, the capital gains tax rate marginally moves up from the 15% that most receive to a top rate of 20%.

The Trump plan proposes a fairly straightforward adjustment to the income tax brackets while keeping the current capital gains rate structure largely intact. The maximum tax rate of 20% on dividends and long-term capital gains would be maintained for top earners. For short-term realizations affected by the ordinary income tax rate, a new tax bracket scheme



would be utilized. Mr. Trump's plan reduces the current seven brackets for ordinary income which range from 10% to 39.6% into three income brackets of 12%, 25% and 33%. What does this do to after-tax expected returns on investment decisions? The plan implies a movement towards a slightly lower ordinary income tax rate for most earners. Expected returns for shorter-term investments with gains realized within one year's time would go up slightly as the tax rates applied come down. For long-term investments held over one year, expected after-tax returns would pretty much remain the same, all else being equal.

The Clinton plan looks to apply higher long-term capital gains tax rates for the wealthiest investors. Basically, Secretary Clinton's plan looks to impact those filers presently getting the 20% long-term capital gains tax rate (those with taxable income over approximately \$400,000). First, her plan moves the necessary duration held from one year to six years to receive that rate. Realizations taken before two years (one year in current law) would be taxed as ordinary income and investments held between two years and six years would be subject to a progressive sliding capital gains tax rate scale. What does her plan do for expected returns? After-tax expected returns for the wealthiest filers and for investments held less than six years would be lower as the rates applied to those realizations would be higher.

Both candidates have fully loaded detailed tax proposals each designed with incentives and behavioral outcomes in mind. This article touches on one basic aspect of each proposal, which is the issue that most directly impacts the investor's risk and reward trade-off.

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Dan P. Burchill  
*Security Analyst*

## Mileage Log Requirements

If you use your vehicle for business purposes, you may be able to deduct vehicle expenses. Generally, you can use either the standard mileage rate or actual car expense method to figure your deductible expenses.

For 2016, the standard business mileage rate is 54 cents per mile. A mileage log must be maintained for either of these methods.

The mileage log must contain the following for each trip: date of your trip, destination (city, town or area), business purpose, odometer reading at the start of your trip, odometer reading at the end of your trip and actual expenses such as gas, oil, tolls, etc. Another requirement is to document the total number of miles you drove during the year - business, commuting and personal. The best way is to take an odometer reading on January 1 and another reading on December 31. Generally, you must keep records that support your deduction for 3 years from the date you file the income tax return on which the deduction is claimed.

The mileage log will track the business percentage for the actual car expense method. For example, if you drove your vehicle 10,000 miles during the year and 5,000 was for business, you would be able to deduct 50% of your actual expenses.

The IRS could disallow your deduction if you cannot produce a mileage log or if your records do not provide enough correct information. Mileage estimates are not allowed. The log may be kept in a notebook, in a spreadsheet or a mileage tracking app.

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Elizabeth A. Zarnoch, EA  
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## College Credits and Deductions

It is amazing how quickly your children go from waiting for their first school bus to waving goodbye to you from their dorm room! No matter the expense of sending your children to college, you may be eligible for a



tax credit. There are options on how you can take advantage of some of the education credits available. The big change for 2016 will be that to claim either of the two credits, the taxpayer must have a 1098-T from the school attended.

The first education credit to be discussed is the American Opportunity Tax Credit (AOTC). If you qualify, this is one of the best credits available. This is a refundable credit, which means that you can receive a refund even if you owe zero tax. This tax credit had been set to expire at the end of 2017, but was permanently extended through the extender legislation passed by Congress in December 2015. The AOTC is for qualified education expenses paid for an eligible student for the first four years of higher education. You can get a maximum annual credit of \$2,500 per eligible student. If the credit brings the amount of tax you owe to zero, you can have 40% of any remaining amount of the credit (up to \$1,000) refunded to you. The student must be enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential for at least one

academic period beginning during the tax year. Additionally, the credit is only good for the first four years of post-secondary education. Graduate course costs are not eligible. The credit is \$2,500 of the cost of tuition, fees and course materials paid during the taxable year per eligible student. If you have more than one dependent going to college, you can take advantage of this credit for each eligible student. There are income limitations in order to claim the tax credit. The credit can only be claimed if you are attending an accredited institution and the student does not have a felony drug conviction.

The Lifetime Learning Credit (LLC) is for qualified tuition and related expenses paid for eligible students enrolled in an eligible educational institution. This credit can help pay for undergraduate, graduate and professional degree courses including courses to acquire or improve job skills. There is no limit on the number of years you can claim the credit. It is worth up to \$2,000 per tax return. The eligible student is yourself, your spouse or a dependent listed on your tax return. This is not a refundable tax credit. This tax credit has income limitations as well; however, it is available for all years of post-secondary education and for courses to acquire or improve job skills. The credit can apply to nonaccredited institutions. The credit does not cover room and board, insurance, transportation expenses or student fees that are not required as a condition of enrollment.

Finally, there is also a deduction called the Tuition and Fees Deductions

for qualified education expenses paid to an eligible educational institution during the year. The deduction can reduce the amount of your income subject to tax by up to \$4,000. This option may be beneficial to you if you do not qualify for the AOTC or the LLC. Those eligible for this deduction are your spouse, your claimed dependent or yourself. As with the education credits, there are income limitations that can preclude you from taking the deduction. The cost of room and board or any personal, living or family expenses are ineligible for this deduction. This deduction is for tuition and fees that are required for enrollment or attendance at the institution.

All of the benefits for education related expenses have a restriction that you cannot claim any of them if you file as married filing separately. You can claim all three on the same return but not for the same student or same expenses. In most cases, credits are more beneficial than deductions.

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