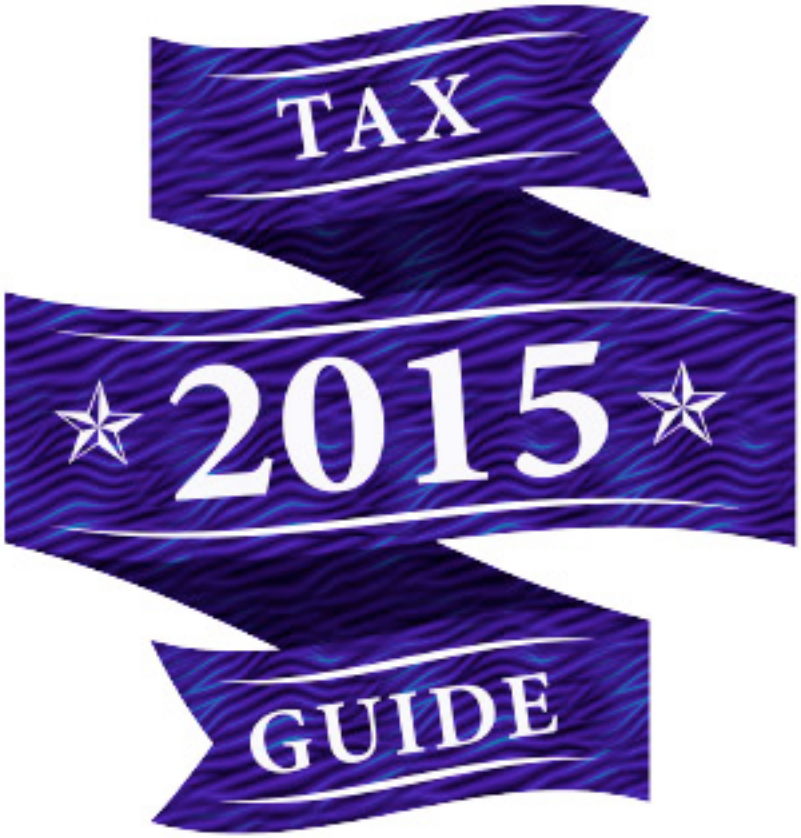

A GUIDE TO 2015 TAX LAW CHANGES (AND MORE)

Presented by: Weston Banks Wealth Partners

Every year brings a bit of change to federal tax laws. Some years bring much more change than that. In 2015, we have many changes and cost-of-living adjustments worth noting.

How soon can taxpayers file? Tax season started on January 20, right on time. The Internal Revenue Service will begin accepting electronically filed returns and paper returns on that date. Federal tax refunds may arrive a little later than you would like this year due to IRS staffing cutbacks.[1]

By the way, did you get that inaccurate email? More than a few taxpayers have opened up a widely circulated email warning about estate tax, payroll tax and capital gains tax increases in 2015. This email – its origin unknown – makes it sound like these higher tax rates apply to everyone. Not true. The tax hikes mentioned in the message actually went into effect in 2013 and impact only the wealthiest U.S. taxpayers.[2]

- *Just a reminder: you should consult with a qualified tax or financial professional before making short-term or long-term changes to your tax or financial strategy.*

Tax Alerts & Tax Law Changes

1 If you received a government health insurance subsidy in 2014, there is a chance you may have to pay some or all of that credit back in 2015.

This actually pertains to your 2014 federal tax return, and it is vital to mention it as 2015 gets underway.

If you bought your own health insurance policy last year, did you receive financial assistance that helped you pay for it? If you did, you probably remember being asked to guesstimate your 2014 income as you enrolled. If your guesstimate was inaccurate (or even if changes like a divorce, a death of a dependent, or a birth or adoption occurred in 2014), you might find that the credit you received was larger than you deserved.

Millions of taxpayers will be affected by this. Some will end up with larger tax bills or smaller refunds as a result.

By January 31, you should have received Form 1095-A from the health insurance marketplace at which you purchased your coverage. This is a new IRS form, akin to a health care W-2 or 1099-INT. The data on Form 1095-A helps you fill out Form 8962, which is used to determine the proper size of your health care subsidy, officially called the Premium Tax Credit (PTC). (If you normally file a 1040-EZ, get ready to file a 1040 or 1040A as a consequence of these two new forms.)

Fortunately, the federal government has capped the amount of excess Premium Tax Credit that a taxpayer can repay. This year, it tops out at $1,250 for single filers and $2,500 for households.

Broadly speaking, families are eligible to claim the Premium Tax Credit for 2015 if the combined income of the household amounts to 400% or less of the federal poverty level and no members of the household can access employer-sponsored health plans. Last year, the eligibility threshold was $94,200 for a family of four (higher in Hawaii and Alaska).

How do you claim the PTC? You can do so in early 2016 on your 1040 form for 2015, or you can do it upfront with your insurer to cut your monthly health insurance policy premiums.

There is a chance that the Premium Tax Credit may vanish in 2015. That's because the Supreme Court will be ruling on it (almost certainly after April 15). The high court will decide if the PTC should exist in the 36 states that elected to forego creating their own health care marketplaces. If it decides that the PTC shouldn't exist in those states, you will see a lot of amended 2014 returns and repayment of advance credits received.[3,4,5]

2 The penalty for not having health insurance increases.

It has been given a new, kinder name for 2015: the Individual Shared Responsibility Provision. A penalty it remains, though.

In 2014, the penalty was either $95 per adult member of your household or 1% of your household income (whichever was greater). This year, the penalty is $325 per member of your household or 2% of household income, whichever is greater.

Practically speaking, an uninsured family of four is looking at a penalty of more than $1,200 this year. That may be motivation enough to shop for a policy. You have until February 15 to enroll in one of the exchanges and obtain coverage.

Of course, exemptions are available. The IRS has a long list at irs.gov (search for *Individual Shared Responsibility Provision – Exemptions: Claiming or Reporting*). Among them: income below the return filing threshold, membership in a health care sharing ministry, lack of Medicaid eligibility because your state did not participate in Medicaid expansion under the Affordable Care Act, and general hardship. See irs.gov for definitions of these and other exemptions.[4]

3 The IRS officially recognizes legal same-sex marriages.

Last year, both the Treasury Department and Internal Revenue Service ruled that same-sex couples "legally married in jurisdictions that recognize their marriages" will be treated as married couples under the Internal Revenue Code.

This pertains to filing status, the standard deduction and personal and dependency exemptions, IRA contributions, the Earned Income Credit and Child Tax Credit, employee benefits and other tax matters in which marriage is a factor.[6]

4 The Affordable Care Act's employer mandate is now in effect (at least at larger workplaces).

Many large employers must offer Affordable Care Act (ACA)-compliant health insurance coverage to at least 70% of their full-time employees (FTEs) in 2015 (and as applicable, their dependents). If they fail to do so, they are looking at penalties. They can either "pay" or "play".

The employer must offer appropriate coverage – "affordable" and "minimum essential" coverage that meets a minimum value requirement. What does that mean? According to the fine print...

** It means that the plan has to offer at least basic medical coverage to these FTEs, which the vast majority of plans manage to do.

** The employee share of the yearly premium for the cheapest self-only plan being offered has to come to less than 9.5% of his/her household income. (That is, 9.5% of the wages reported in Box 1 on that worker's W-2 form).

** The plan has to shoulder at least 60% of the total allowed costs of benefits provided. (The employee picks up the other 40% via copayments, deductibles and coinsurance.)

For 2015, all this holds true for companies/workplaces with 100 or more FTEs. Starting January 1, 2016, companies/workplaces with 50-99 full-time employees will need to comply with the mandate.

As for the penalty, it kicks in if either of two tests is not met. As a result, there are variations of it.

Variation 1: If a large employer fails to offer "minimum essential" health insurance coverage to the mandated 70% of FTEs this year and any FTE goes and gets subsidized health insurance coverage through an exchange, the employer will owe a 2015 penalty of $2,000 for each FTE in excess of 80 employees (30 after 2015).

Variations 2a and 2b: If a large employer fails to offer "affordable, minimum value" coverage to 70% of FTEs this year, said employer will owe the lesser of two possible penalties: $2,000 for each FTE in excess of 80 employees (30 after 2015) or $3,000 for each FTE who gets subsidized health insurance coverage through an exchange.[7]

5 A Flexible Spending Account (FSA) rollover rule has changed.

Since 2013, FSA owners have been able to roll over year-end FSA balances of up to $500 to the next plan year. You can still do that in 2015 and subsequent years, but if you do, you can't participate in a Health Savings Account (HSA).

In 2015, the annual contribution limit for an FSA rises from $50 to $2,550.[4,8]

6 You are now allowed to make only one IRA-to-IRA rollover every 12 months (with a couple of important exceptions).

If you are the original owner of a traditional IRA, you have the capacity to make a tax-free rollover of some or all of those invested assets. If you roll assets from one traditional IRA into another within a 60-day window, you may remove the amount of that IRA distribution from your gross income for the applicable tax year.

For years, the IRS forbade multiple tax-free rollovers from the same IRA within a 12-month period. Since many people owned more than one IRA, that wasn't necessarily a hitch.

In 2015, the rules on IRA rollovers have tightened. You can now make only one tax-free IRA-to-IRA rollover per 12 months, regardless of how many IRAs you own. Make any more and the amount of the IRA distribution(s) will be included in your gross income.

Some fine print from the IRS website: "The limit will apply by aggregating all of an individual's IRAs, including SEP and SIMPLE IRAs as well as traditional and Roth IRAs, effectively treating them as one IRA for purposes of the limit."

This new limit does not apply to Roth conversions or trustee-to-trustee transfers of IRA assets (that is, IRA "rollovers" in which your bank or brokerage arranges a payment directly from your IRA to another IRA without you touching the money).[9]

7 Bitcoin is taxable income.

While the Treasury ruled that bitcoin isn't an official currency last year, the IRS now characterizes bitcoin income as ordinary income. You must count the estimated market value of any 2014 bitcoin income in your 2014 taxable income.[4]

Important COLAs

8 Income tax brackets have been adjusted.

The IRS has set these income thresholds for the 2015 federal income tax brackets:

Bracket	Single Filers	Married Filing Jointly or Qualifying Widower	Married Filing Separately	Head of Household
10%	$1 - $9,225	$1 - $18,450	$1 - $9,225	$1 - $13,150
15%	$9,225 - $37,450	$18,450 - $74,900	$9,225 - $37,450	$13,150 - $50,200
25%	$37,450 - $90,750	$74,900 - $151,200	$37,450 - $75,600	$50,200 - $129,600
28%	$90,750 - $189,300	$151,200 - $230,450	$75,600 - $115,225	$129,600 - $209,850
33%	$189,300 - $411,500	$230,450 - $411,500	$115,225 - $205,750	$209,850 - $411,500
35%	$411,500 - $413,200	$411,500 - $464,850	$205,750 - $232,425	$411,500 - $439,200
39.6%	$413,201 and more	$464,851 and more	$232,426 and more	$439,201 and more

All these increases are related to the minor inflation recently measured by the Consumer Price Index.[10]

9 Standard deduction amounts rise.

For those not itemizing, the TY 2015 standard deduction exemption amounts are:

Single filers/married filing separately	**$6,300** *(up $100 from 2014)*
Heads of household	**$9,250** *(up $150 from 2014)*
Married filing jointly/surviving spouse	**$12,600** *(up $200 from 2014)*

These are typical inflation-indexed alterations.[11]

10 The limitation on itemized deductions increases.

In TY 2015, the limit is set at $258,250 for single filers, $309,900 for joint filers.[11]

11 The personal exemption amount has risen by $50.

That puts it at an even $4,000 for TY 2015. Of course, it is now subject to phase-outs based on adjusted gross income. The phase-out ranges start at AGI of $258,250 for single filers, $309,900 for joint filers. Single filers with 2015 AGI exceeding $380,750 and joint filers with 2015 AGI exceeding $432,400 can't claim the personal exemption.[11]

12 The AMT exemption gets a slight boost.

It is now inflation-indexed, so it too rises this year. In 2015, the exemption tops out at $53,600 for single filers and $83,400 for joint filers. These are respective increases of $800 and $1,300 from 2014.[11]

13 The estate tax exemption rises by another $90,000.

If someone dies in 2015, the basic exemption amount for their estate is $5.43 million. Last year the estate tax exemption was at $5.34 million.

Does the annual gift tax exclusion get a COLA this year? No. It remains at $14,000.[11]

14 The maximum amount of earnings subject to Social Security tax increases by $1,500.

In 2014, individual wages up until $117,000 were subject to Social Security tax, also known as payroll taxes. This year, the earnings maximum is set at $118,500. With the applicable tax rate at 6.2%, that means an individual could pay up to $7,347 in Social Security tax in 2015.[12]

15 Annual standard and catch-up contribution limits for 401(k)s, 403(b)s, the TSP & most 457 plans rise by $500.

The yearly contribution limit for these popular qualified retirement plans is $18,000 in 2015.

The same $500 increase applies to the standard catch-up contribution limits – that is, 401(k), 403(b) and TSP participants who will be 50 or older in 2015 may make catch-up contributions of up to $6,000.

For 457 plans, the "pre-retirement" annual catch-up contribution limit becomes $36,000 this year and the "age 50" annual catch-up contribution limit becomes $24,000.

In case you are wondering, nothing has changed for 2015 regarding Roth or traditional IRA contributions – the annual contribution limit for both IRA types is still $5,500, $6,500 for those 50 and older.[12,13,14]

16 Slightly higher phase-out ranges affecting deductions for traditional IRA contributions.

Here are 2015's MAGI phase-out ranges (and limits).

Single or head of household, covered by workplace retirement plan	$61,000-71,000 *($1,000 higher than 2014)*
Married filing jointly, spouse making IRA contribution covered by workplace retirement plan	$98,000-118,000 *($2,000 higher than 2014)*
Married filing jointly, spouse making IRA contribution *not* covered by workplace retirement plan, other spouse is covered by one	$183,000-193,000 *($2,000 higher than 2014)*
Married filing separately, covered by workplace retirement plan	$0-10,000 *(unchanged)*

If your modified adjusted gross income (MAGI) exceeds the top limit of the applicable phase-out range, you can't claim a deduction for a traditional IRA contribution made in 2015. If it falls within the applicable phase-out range, you may claim a partial deduction.[12]

17 A corresponding boost for Roth IRA phase-out ranges.

Here are 2015's MAGI phase-out ranges (and limits).

Single or head of household	$116,000-131,000 *($2,000 higher than 2014)*
Married filing jointly	$183,000-193,000 *($2,000 higher than 2014)*
Married filing separately	$0-10,000 *(unchanged)*

If your modified adjusted gross income (MAGI) exceeds the top limit of the applicable phase-out range, you can't make a Roth IRA contribution made in 2015. If it falls within the applicable phase-out range, you may make a partial contribution.[12]

18 Three COLAs apply to 401(a) money purchase plans.

The annual addition for 401(a) defined contribution plans under Section 415(c)(1)(A) goes up $1,000 to $53,000 this year.

The annual compensation limit for non-grandfather, post-OBRA 401(a) defined contribution plans is set at $265,000 this year, a $5,000 increase. Grandfathered 401(a) plans see a $10,000 boost in yearly compensation limits to $395,000.

What doesn't change? The annual benefit limit for 401(a) defined benefit plans under Section 415(c)(1)(A) remains at $210,000 in 2015.[13]

19 COLAs affect SEPs, Solo 401(k)s, SIMPLE plans & ESOPs.

The IRS has made 2015 adjustments to contribution, compensation and distribution thresholds specific to these plans.

SEP & Solo 401(k)	*Maximum compensation of $265,000 (up $5,000 from 2014) *Compensation threshold for participation is $600 (up $50 from 2014)
SIMPLE plan	*Maximum contribution of $12,500 (up $500 from 2014) *Catch-up contributions rise to $3,000 (also up $500 from 2014)
ESOP	*5-year distribution threshold of $1,070,000 (up $20,000 from 2014) (Additional year threshold remains at $210,000)[14,15]

20 In 2015, the limit on what defines a "highly compensated" employee under IRC Section 414(q)(1)(B) rises.

This year, the limitation is at $120,000 for "top-heavy" plans. Previously, it was at $115,000.

Please note, however: the "key employee" determination threshold for a "top-heavy" plan remains at $170,000 for 2015.[12,15]

21 A slight phase-out adjustment pertains to the small business health care tax credit.

In 2014, small business owners (SBOs) looked at a phase-out of the maximum credit if a business had more than 10 full-time equivalent employees with average annual wages exceeding $25,400. This year's phase-out is based on the same criteria, except average annual wages must top $25,800.[11]

22 Saver's credit thresholds have risen.

The saver's credit is available to IRA and 401(k) account holders whose AGI falls beneath a certain limit. It can be as large as $1,000 for single filers and as large as $2,000 for married couples. For 2015, AGI limits for claiming the saver's credit are as follows:

Single filers	≤ $30,500 *(up $500 from 2014)*
Head of household	≤ $45,750 *(up $750 from 2014)*
Married filing jointly	≤ $61,000 *(up $1,000 from 2014)*

The exact same dollar increases were made per filing status in 2014. (You cannot claim the saver's credit if you are younger than 18 or are a full-time student.)[16]

23 The Earned Income Tax Credit grows a bit larger.

Married couples filing jointly with three or more children may qualify for the maximum 2015 Earned Income Tax Credit (EITC) of $6,242. You can claim it if you meet the IRS qualifying child rules (see Publication 596) and if your earned income *and* AGI fall beneath the following levels:

Household Size	***Single Filers***	***Joint Filers***
3 or more qualifying children	$47,747	$53,267
2 qualifying children	$44,454	$49,974
1 qualifying child	$39,131	$44,651
0 qualifying children	$14,820	$20,330

Taxpayers cannot claim the EITC if their 2015 investment income exceeds $3,400. (See a tax professional for full details.)[6]

24 The annual exclusion on gifts made to a spouse who is not a U.S. citizen has increased.

For 2015, this exclusion is set $147,000, up $2,000 from 2014.[11]

25 The foreign earned income exclusion has reached six figures.

In 2014, it was at $99,200. This year, it has been boosted to $100,800.[11]

26 The "kiddie tax" exemption amount rises.

This is the tax that the IRS levies on unearned income a child receives from investments or income property (cash, stocks, bonds, mutual funds, and real estate). Taxpayers younger than 19 are subject to it, and so are taxpayers aged 19-23 who happen to be full-time students with earned incomes of less than 50% of the yearly expenses paid to support them.

In 2015, the kiddie tax threshold climbs another $100 to $2,100.

Incidentally, the "nanny tax" exemption stays at $1,900 for 2015. If you plan on paying more than $1,900 this year to a nanny, maid, home health care worker, or any kind of domestic worker, that worker will probably be defined as an "employee" (see your tax professional for specifics on the definition). Correspondingly, you will be defined as an "employer" by the IRS. This means you will likely have to pay Social Security taxes, Medicare taxes, and possibly federal and state unemployment taxes linked to that person's wages. Is a W-2 needed? Yes, and you must also abide by other deposit and filing regulations. If you paid more than $1,900 to a domestic employee in 2014, you have until February 2, 2015 to provide him or her with a W-2 form.[17,18]

Social Security COLAs

27 America's retirement program has made a few adjustments to benefit amounts and important income thresholds.

First, Social Security and Supplemental Security Income benefits are rising 1.7% this year, meaning a little more income for roughly 66 million of us.

Second, 2015 brings a $21 increase in the maximum monthly Social Security benefit for someone retiring at full retirement age. It rises to $2,663.

Third, the retirement earnings test amounts are a bit higher. If you receive Social Security benefits and you will be younger than full retirement age at the end of 2015 (i.e., age 62-65), $1 of your benefits will be withheld for every $2 that you earn above $15,720 (the 2014 limit was $15,480). That $15,720

works out to $1,310 a month. If you receive Social Security benefits and reach full retirement age in 2015 (age 66), then $1 of your benefits will be withheld for every $3 that you earn above $41,880. (That breaks down to $3,490 a month.) Upon turning 66, your benefits are never reduced due to earned income levels.

Fourth, the monthly disability thresholds on "substantial gainful activity" – that is, the amount of income a person can earn per month and still receive Social Security disability benefits – rises to $1,090 for the non-blind and $1,820 for the blind. (The increase is $20 in each case.)

Now, how much of your Social Security income might be taxable in 2015? It depends on your "combined income," which Social Security measures with the following formula:

Adjusted gross income + non-taxable interest + 50% of Social Security benefits = combined income

If your combined income is between the following amounts, you may have to pay federal income tax on up to 50% of your benefits:

Single filers ("individuals")	**$25,000-34,000**
Joint filers	**$32,000-44,000**

If it exceeds the following amounts, you may have to pay federal income tax on up to 85% of your benefits:

Single filers ("individuals")	**$34,000**
Joint filers	**$44,000**

Those who are married and file separately will "probably" have their Social Security benefits taxed, according to the program's website. The above thresholds are never indexed for inflation; they never change.[12,19,20]

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