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New "Tax Extenders" Law Has Even Greater Reach

Unlike past legislation that granted a temporary reprieve to expired and expiring tax breaks, the new "Protecting Americans from Tax Hikes" (PATH) Act of 2015 goes further, modifying some provisions and making several of them permanent.

Permanent Tax Breaks in PATH Act

These provisions, most of which had expired after 2014, now have been reinstated for 2015 and made permanent, with some modifications.

Section 179 deduction: The maximum annual Section 179 deduction for buying new or used business property, which had plunged to $25,000 after 2014, is reinstated to $500,000. Once you've spent $2 million, the deduction is reduced by a dollar for every additional dollar you spend. These figures will be indexed for inflation in future years.

Depreciation write-offs: This lets you recover the cost of qualified leasehold, restaurant and retail improvements in 15 years rather than 39. This provision is extended retroactively and made permanent.

Child tax credit: Parents can benefit from an enhanced, potentially refundable child credit. Scheduled to expire after 2017, it's preserved for parents who owe taxes.

American Opportunity Tax Credit: Parents of college students will continue to be able to claim a maximum American Opportunity Tax Credit (AOTC) of $2,500, phased out based on modified adjusted gross income (MAGI). The credit maximum had been scheduled to drop to $1,800 in 2017.

Gifts of conservation property: Under the new law, if you donate property for conservation purposes you can take a deduction of up to 50% of your adjusted gross income (AGI)—or 100% if you're a farmer or rancher. That contrasts with the usual 30%-of-AGI limit. And you now can carry forward any excess amount for as long as 15 years instead of five years.

Charitable gifts from IRAs: If you're older than 70½ you again can give a maximum of $100,000 directly from your IRA to a charity without tax liability. That doubles to $200,000 if you give with your spouse.

Research credit: This credit, for spending by your business on research and development, is now permanent. The new law also includes other breaks for small businesses.

State and local sales taxes: This optional deduction, taken in lieu of a deduction for income taxes that you pay, is now a permanent part of the tax code.

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2 People, 1 Policy; Affordable LTC For Both

We work hard every day to protect the people and things we care about. And whether your vision of protection involves legacy and estate planning or minimizing the financial impact that long-term care (LTC) can have on your family, we can help address your needs. About 70% of adults over age 65 will require some type of long-term care in their lifetime.[1]

Nationwide has a way to add a LTC rider, for up to two people, on one life insurance policy. Nationwide's YourLife® No-Lapse Guarantee SUL II comes with a lifetime guarantee, so you can be sure the coverage will be there when it's needed. There are optional riders and features available to help you customize the policy to fit your unique planning needs. Whether you're looking for coverage for you and your spouse, domestic partner, or adult child, Nationwide provides a flexible solution for many life scenarios.

Keep in mind that guarantees are subject to the claims-paying ability of the issuing insurance company. If you are interested in finding out if this may be an appropriate solution for you, please contact us at 630-778-8088.

John

[1] Navigo (June 30, 2013), Long-Term Care Insurance Statistics.

What To Know About Social Security

The Social Security Administration (SSA) recently announced that there will be no increase in retiree benefits in 2016 because of the low inflation rate. Cost-of-living adjustments (COLAs), which are based on a consumer price index for urban wage-earners, have been standard fare and most retirees expect them. In fact, this is only the third time without a yearly increase in Social Security retirement benefits since COLAs were instituted in 1975. (The other two occurred in 2010 and 2011.)

It may be small consolation, but the Social Security wage base for payroll taxes also won't go up, remaining at $118,500 in 2016. This means the first $118,500 of wages you earn in 2016 is subject to a 6.2% tax (or twice that if you're self-employed). There's also a tax for Medicare of 1.45% on all earnings.

Furthermore, the SSA has announced that the limits under the "earnings test" (the amount you can earn from working without forfeiting Social Security benefits) also are unchanged.

Did this "freeze" for 2016 catch you by surprise? If so, you're not alone. People from all walks of life, including those who already have retired, often don't fully understand the rules for Social Security or are unaware of how complex the rules are. Use this quiz to test your personal knowledge of the subject:

1) The earliest age you can begin to receive Social Security retiree benefits is:

a) age 59½.
b) age 62.
c) age 65.
d) age 70.

2) The amount you will receive if you opt for early retirement may be reduced by as much as _____ for someone born in 1960 or later.

a) 5%
b) 10%
c) 20%
d) 30%

3) To get the maximum amount of Social Security benefits, you need to wait until ______ to begin receiving benefits.

a) age 59½
b) age 62
c) age 65
d) age 70

4) Spousal benefits are available to an unmarried ex-spouse if he or she was married to the beneficiary for at least:

a) 3 years.
b) 5 years.
c) 10 years.
d) 25 years.

5) Social Security retiree benefits are partially taxable if your benefits exceed ________ if you're a single tax filer and ________ if you're a joint filer.)

a) $10,000/$25,000
b) $25,000/$32,000
c) $50,000/$100,000
d) $200,000/$250,000

6) The age when a Baby Boomer born between 1943 and 1954 is able to receive full retirement benefits is:

a) age 62.
b) age 65.
c) age 66.
d) age 70.

7) For 2016, the maximum amount you're allowed to earn in the year you reach full retirement age—but before the month of your birthday—without forfeiting any benefits is:

a) $15,480.
b) $26,480.
c) $41,880
d) $55,880.

Answers: 1-b; 2-d; 3-d; 4-c; 5-b; 6-c; 7-c

5 Reasons To Amend Your Estate Plan

It's 2016...do you know where your estate plan is? If you're like most busy people, you may have made a will, perhaps when your children were born, and it's possible you've taken other steps to lay out what will happen after you're gone. But frequently those plans are just gathering dust.

Now's a good time to crack open the vault and take a closer look. Typically, your estate plan will need a minor update, and in some cases a complete overhaul may be in order. Consider these five reasons to revise your plan:

1. Family changes: Your personal situation may have shifted because of a divorce, a separation, or the death of a spouse. You might want to add or subtract beneficiaries to trusts or estates if children or grandchildren have been born since you created your estate plan or if a beneficiary has died. Or your intended heirs may have married or divorced, further complicating matters.

2. Financial changes: When you created your estate plan, you probably owned fewer assets or different assets than you have now. You may need to revise your will or trust documents, especially if the value has changed dramatically. Or perhaps you've acquired a business interest or sold one—another potentially big change to your financial status. A job loss or change also could have an impact on your plan.

3. Tax law changes: It seems like the federal estate tax law is amended every other year, so it's important to keep abreast of the latest developments. For instance, your estate plan may not reflect the ever-increasing federal estate tax exemption. The exemption, which was $650,000 a decade and a half ago, has ballooned to $5.45 million for someone who dies in 2016. Other tax law provisions, such as the "portability" of exemptions between

Balancing The Three Big Saving Priorities

Going back to ancient times, elders preached about the wisdom of saving money. In the modern era, three primary saving objectives have emerged for most people: (1) saving for retirement; (2) saving for your children's college educations; and (3) saving for emergencies. This "big three" hasn't changed much over the past century.

But plenty of things have shifted. Few companies still provide the sort of pension plan that can ensure a comfortable retirement without eroding your current salary. The cost of higher education continues to skyrocket. And with numerous other competing interests, not to mention other rising costs, it's getting harder and harder to set aside money for a rainy day.

Nevertheless, it's important to plan ahead. That usually means setting priorities for your various saving goals and remaining committed to your plan. It also requires finding the proper balance without focusing on one objective to the exclusion of the others. Keeping that in mind, here are some practical suggestions for addressing the "big three":

1. Retirement planning: This is generally the top priority because it encompasses the most people – including those with or without children – and it is critical for virtually everyone. Just think that you're likely to live about one-quarter to one-third of your life in retirement on a fixed income. With the latest medical advances, early retirees might even live close to half of their lives in retirement!

Typically, savings will come from a variety of sources, including tax-qualified retirement plans, taxable investments, and Social Security benefits.

When possible, take advantage of employer-provided plans, like a 401(k) plan or pension plan, and IRAs. For 2015, you can defer up to $18,000 of salary to a 401(k) or $24,000 if you're age 50 or over and you may benefit from matching contributions from your employer. The limit for IRA contributions in 2015 is $5,500 or $6,500 if you're age 50 or over. With a Roth IRA, future payouts are generally tax-free.

Finally, the Social Security Administration (SSA) can project your future Social Security benefits based on your earnings history. But those benefits alone probably won't be enough to support you in retirement.

2. College planning: While retirement planning is essential, saving for college might appear even more crucial if your children are approaching the age at which they'll head off to school. Yet despite the timing – your kids' college years usually precede your retirement – don't forget that it's much easier to save while you're still in your prime earning years. Furthermore, there are a number of ways to boost your college savings funds.

One key vehicle is the Section 529 plan. Under these state-run plans, you can set aside money in an account where it's invested on a tax-deferred basis. When you withdraw funds to pay for qualified higher education expenses, the distributions are exempt from current tax. Although the details vary from state to state, the limits for contributions are generous, usually well into six figures.

Other techniques may be used alongside or even in lieu of a Section 529 plan. Those might include custodial accounts, Coverdell Education Savings Accounts (CESAs), loans, scholarships, and various types of trusts.

3. Emergency planning: This is generally the most difficult goal to achieve because, on its face, it doesn't appear as vital as the other two. Yet you should recognize the need to have cash reserves you can draw on in the event of an unexpected event such as a catastrophic medical condition or a job loss. This rainy day fund can help sustain your family in times of need. No one can foresee the future, so you need to plan for the worst and hope for the best.

The conventional thinking is to set aside enough to get you through about six months of hard times, but the exact amount will differ, depending on your personal circumstances and your ability to save. Don't try to do it all in one fell swoop. Instead, as part of a monthly budget, try to deposit a regular amount in a separate fund and add in any windfalls, such as an inheritance or an unexpected insurance check that may come your way.

Reminder: There's no need to sacrifice any one of these three goals. They are all important to your financial being, but there are times when you likely will prioritize one over the other. Strike the balance needed for your situation. ●

the estates of you and your spouse, also may need to be addressed.

4. Geographic changes: If you've pulled up stakes and moved the homestead, maybe downsizing to a place in a warmer climate, this significant change also probably needs to be reflected in your estate plan—especially if you've moved to a state with substantially different tax laws.

5. Personal changes: Finally, you may have had a change of heart about beneficiaries or developed different priorities or preferences. For example, you might decide to cut a daughter-in-law or son-in-law out of your will or decide to attach conditions to particular gifts or bequests. It's your estate plan, so you can "fix" it however you like.

Of course, you don't have to undertake all of this on your own. Rely on your financial, tax, and legal advisers for guidance. ●

Taxing Issues For Business Entities

How is your business structured? There are numerous factors involved in choosing a particular form of business ownership—for instance, you might opt for a traditional C corporation format for the protection it provides from personal liability—but taxes remain a key part of the equation. Here's a brief summary of the tax consequences for the five main types of business entities:

1. C Corporations: While a C corporation acts as a shield from personal liability, this option results in "double taxation." First, your business is taxed at the corporate level—and then you may be taxed again on your salary, bonuses, and dividends paid by the company. Second, you pay tax again when salary and dividends are paid out to you.

2. Partnerships: These entities avoid double taxation issues. Although partnership income is reported on a separate return, income and deductions are passed through to the partners. As a partner, income is taxable to you only under the individual tax rate structure. However, a general partner may be personally liable to creditors.

3. S Corporations: Business owners who opt for the S corporation form of ownership get the same tax benefits as partners plus protection of personal assets. Income and deductions reported on the business tax return are passed through to individual shareholders. There's no double taxation. However, while growth in S corporations had mushroomed the past few decades, it slowed after the top individual tax rate was raised to 39.6%, higher than the top corporate rate of 35%. A calendar-year C corporation has until March 15, 2016, to switch to S corporation status for the 2016 tax year.

4. Limited liability companies (LLCs): Another reason why growth in S corporations has slowed is the advent of LLCs. By filing the documents required by state law, LLC shareholders (called "members") are generally taxed like partnerships for federal income tax purposes, unless they elect otherwise. LLCs thus are known for combining single taxation on the individual level with protection of personal assets. Keep in mind, however, that the rules differ among states, so some LLCs might not be treated like partnerships for state income tax purposes.

5. Sole proprietorships: This is the simplest form of business ownership. Essentially, the business and the owner are one and the same. You generally report your business income on Schedule C of your individual tax return.

Of course, you must weigh other factors affecting business ownership before you decide which route to take. Just give taxes their proper due. ●

New "Tax Extenders" Law

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Qualified small business stock: Investors in qualified small business stock (QSBS) can continue to exclude 100% of the gain from the sale of such stock. This tax exclusion was supposed to be cut to 50% for QSBS acquired after 2014, but now the 100% exclusion is permanent.

Employee transportation benefits: The tax law provides tax-free benefits for workers' mass transit passes, van pooling, and parking fees. The maximum monthly benefit for mass transit passes and van pooling had been reduced to $130 after 2014, but the new law restores a monthly maximum of $250 for all three fringe benefits (indexed to $255 for 2016).

Teacher classroom expenses: Teachers and other educators can deduct up to $250 of their out-of-pocket classroom expenses. This deduction will be indexed for inflation in future years.

Extended Tax Breaks in PATH Act

These provisions, most of which had expired after 2014, now are extended retroactive to January 1, 2015, for a period of at least two years.

- Your business can claim a bonus depreciation deduction of 50% (on the purchase of new equipment) for 2015 through 2017. That drops to 40% in 2018 and 30% in 2019.
- Parents can elect to deduct college tuition and fees, subject to an income-based phaseout, instead of a higher education credit.
- Employers again may claim tax credits for hiring workers who are military veterans or from specified disadvantaged groups.
- Some homeowners will benefit from tax-free mortgage forgiveness on debts of up to $2 million and a deduction for mortgage insurance premiums.
- A residential energy credit of up to $500 is available for qualifying energy-saving expenses.

Among other changes, the new law also postpones a tax on high-priced health insurance plans—mandated by the Affordable Care Act (ACA)—from 2018 to 2020; codifies the Taxpayer Bill of Rights; and extends liberal rules for Section 529 college saving plans. Contact us for information about how these provisions may affect your situation. ●