Tax Tips

Keeping You Informed • Summer 2016

Using a §529 Plan to Save for College

Inside one popular savings option

With the high cost of postsecondary education, §529 plans remain a popular option for those looking to save for a child's future education expenses. There are two types of §529 plans available: pre-paid tuition plans and college savings plans. Every state sponsors at least one of these types of plans. Eligible educational institutions may also sponsor a pre-paid tuition plan.

There are several perks to setting up this sort of plan. In general, there is no tax due on §529 plan distributions and the contribution limits are higher than a Coverdell Education Savings Account. In addition, you can contribute to a child's plan even when he or she is older than age 18.

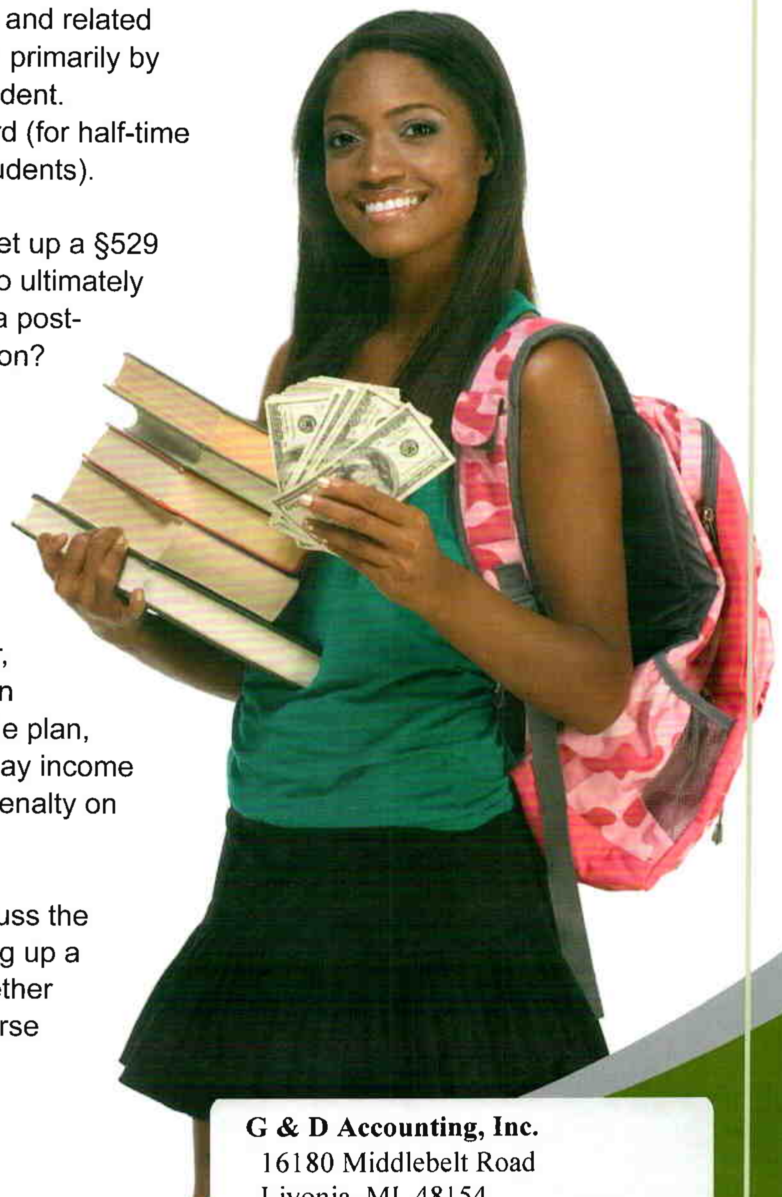
For plan distributions to remain tax-exempt, the amount distributed cannot be greater than the beneficiary's adjusted qualified education expenses, which include:

- Required tuition and fees.
- Books.
- Supplies and equipment, such as computer or peripheral equipment, computer software, internet access and related services if used primarily by the enrolled student.
- Room and board (for half-time and full-time students).

Now, what if you set up a §529 plan for a child who ultimately decides to forego a post-secondary education?

Fortunately, you can move the plan over to a new beneficiary, as long as the new beneficiary is a family member, or yourself. You can also cash out on the plan, but you'll have to pay income taxes and a 10% penalty on the earnings.

If you'd like to discuss the tax impact of setting up a §529 plan and whether this is the right course for you, I would be more than happy to help.



G & D Accounting, Inc.
16180 Middlebelt Road
Livonia, MI 48154
734-513-8297 Fax: 734-513-9032
www.gdaccounting.com

Requirement for Health Insurance

Avoid penalties for not having minimum essential coverage

To avoid a penalty for not having health insurance, you must be enrolled in a plan that qualifies as minimum essential coverage (MEC). You won't be subject to a penalty as long as you have coverage under any of the following:

- A health plan bought through the Health Insurance Marketplace.
- An individual health plan bought outside the Health Insurance Marketplace, if it meets the standard for qualified health plans.
- A "grandfathered" individual insurance plan you've had since March 23, 2010, or earlier.
- A job-based plan, including a retiree plan and COBRA coverage.
- Medicare Part A or Part C (Part B coverage by itself doesn't qualify).
- Most Medicaid coverage, except for limited coverage plans.
- The Children's Health Insurance Program (CHIP).
- A parent's plan.
- A student health plan (check with your school to see if the plan counts as minimum essential coverage).
- A health care plan for Peace Corps volunteers.
- A health care plan through the Department of Veterans Affairs.
- Most TRICARE plans.
- Department of Defense Nonappropriated Fund Health Benefits Program.
- Refugee Medical Assistance.
- State high-risk pools for plan or policy years that started on or before December 31, 2014 (check with your high-risk pool plan to see if it qualifies as minimum essential coverage).

If you don't have MEC, you are required to pay a fee called the individual shared responsibility payment for being uninsured. Examples of health plans that don't count as coverage include:

- Coverage only for vision care or dental care.
- Workers' compensation.
- Coverage only for a specific disease or condition.
- Plans that offer discounts on medical services.

You'll owe the shared responsibility payment for any month you, your spouse or your tax dependent don't have health insurance that qualifies as MEC. This fee will be paid when you file your federal tax return for the year you don't have coverage.

Determining Home Sale Gain

Something to keep in mind when planning to sell

Planning on selling your home? On top of packing and cleaning, you'll need to determine whether you have a gain on the sale of your home.

To do this, you must figure out your adjusted basis (i.e., the original purchase price of the residence, purchase expenses, improvements, additions, assessments and more). Take the final selling price and reduce it by your adjusted basis to calculate your gain or loss from the sale.

If you have a gain, you may qualify for an exclusion of income for all or part of the gain. In general, if you have owned and used your home as your main residence for two out of the last five years, you are eligible to exclude up to $250,000 of gain from income ($500,000 for married taxpayers filing jointly).

You are not eligible for the exclusion if you excluded the gain from the sale of another home during the two-year period prior to the sale of your home.

Be sure to consult me to help determine the items that may affect your home's adjusted basis.

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Using Dependent Care Benefits for Day Care Expenses

A closer look at exclusions and deductions

Some employers offer dependent care benefits to employees. If you receive such benefits, you may be able to exclude all or part of them from your income.

Dependent care benefits include:

- Amounts your employer paid directly to either you or your care provider for the care of your qualifying person while you work.
- The fair market value or care in a day care facility provided or sponsored by your employer.
- Pre-tax contributions you made under a dependent care flexible spending arrangement.

If your employer provides dependent care benefits under a qualified plan, you may be able to exclude these benefits from your income. Your employer will be able to tell you whether your benefit plan qualifies.

The amount you can exclude or deduct is limited to the smallest of:

- The total amount of dependent care benefits you received during the year.
- The total amount of qualified expenses you incurred during the year.
- Your earned income.
- Your spouse's earned income.
- $5,000 ($2,500 if married filing separately).

If you are eligible to claim this exclusion, I'd be glad to help you with it.

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*my*RA: Are You Eligible?

A guide to one retirement savings plan option

In November 2015, the Treasury Department launched *my*RA. This is a safe, simple and affordable way to open a starter retirement account for those who do not have access to an employer-sponsored retirement plan.

Following are a few facts that will help you determine whether *my*RA is right for you:

- Accounts are open to those who have annual earned income below $132,000 if single, head of household, or married filing separately, or $194,000 if married filing jointly.
- Account owners can save up to $15,000 over a period of 30 years. Once this limit is reached, savings will have to be rolled over to a Roth IRA.
- An account will earn interest at the same variable rate available to federal employees for their retirement accounts and follow the same rules as a Roth IRA.
- Accounts are portable and not tied to a single employer, meaning if you switch jobs, you can continue to contribute to your *my*RA account.

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Quick Tips

1	The standard deduction remains at $6,300 for singles and married persons filing separate returns and $12,600 for married couples filing jointly. The standard deduction for heads of household rises to $9,300.
2	The limitation for claiming itemized deductions on 2016 individual returns begins with incomes of $259,400 or more ($311,300 for married filing jointly; $285,350 for heads of household; and $155,650 for married filing separately).
3	The personal exemption for tax year 2016 rises to $4,050, up from $4,000 for tax year 2015.
4	The annual exclusion for gifts remains at $14,000 for 2016.
5	For 2016, the maximum earned income credit is $506 for taxpayers with no children; $3,373 for taxpayers with one child; $5,572 for taxpayers with two children; and $6,269 for taxpayers with three or more children.
6	The standard mileage rate for medical and moving purposes decreased to 19¢ per mile for 2016.

- Opening a *my*RA account costs nothing, and you can contribute an amount that fits your budget, as long as it's within contribution limits (individuals can contribute up to $5,500 to all of their IRAs).
- Account owners can withdraw contributions without paying tax and penalties.
- Like a savings bond, plan funds can't lose value and will increase over time.

Participants can fund their accounts through a:
- Payroll deduction. Set up automatic direct deposit contributions through an employer.
- Checking or savings account. Fund directly by setting up recurring or one-time contributions from a checking or savings account.
- Federal tax refund. Direct all or a portion of a federal tax refund to your *my*RA account.

For more information on opening a *my*RA account, visit myRA.gov.

IRS Notices

If you receive one, don't panic

Receiving a notice from the IRS might cause instant panic, but there is typically no reason to alarm yourself. Following are a few reasons why the IRS might send you a notice:
- You have a balance due.
- You are due a larger or smaller refund.
- There is a question about your tax return.
- Your identity needs to be verified.
- The IRS needs additional information.
- Your return has been changed.
- There are delays in processing your return.

Generally, the IRS issues notices to request payment of taxes or additional information. Each notice offers specific instructions on what you need to do to satisfy the inquiry. To avoid any possible interest and penalty charges, you'll want to be sure to respond to any inquiry quickly and pay as much of any amount due as possible.

Receiving a notice doesn't necessarily mean you did something wrong, but the worst thing you could do is ignore it. Instead, contact me right away to review the correspondence and, if necessary, respond to the inquiry. In most cases, the IRS requires a response within 30 or 60 days.

And beware of scams, which continue to be on the rise. These include mail, email and phone scams. Keep in mind that the IRS sends notices and letters by mail only, so if you receive a call or email from someone claiming to be from the IRS, it's more than likely part of a scam. If you receive a piece of mail from someone claiming to be from the IRS, be sure to bring it to me so I can verify its legitimacy before taking action.

Qualified Charitable Distributions

Making a tax-free contribution from your IRA

Knowing the ins and outs of qualified charitable distributions (QCD) can ultimately save you time and money down the road. A QCD is generally a nontaxable distribution from your IRA account made to an organization eligible to receive tax deductible contributions. If you're over the age of 70½, you may transfer up to $100,000 from your IRA to a charitable organization without having to include the income on your Form 1040. If you file a joint return, your spouse can also have a QCD and exclude up to $100,000.

Making this type of distribution allows you to report less income, which could help reduce the impact on taxable social security benefits. Here are a few additional things to keep in mind:
- Any QCD in excess of the $100,000 exclusion limit is included in income as any other distribution.
- The amount of the QCD is limited to the amount of the distribution that would otherwise be included in income.
- If your IRA includes nondeductible contributions, the distribution is first considered to be paid out of otherwise taxable income.

A QCD will count towards your required minimum distribution; however, you cannot claim a charitable contribution deduction for any QCD not included in your income.

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