

Annual Update on Changes in Tax Law & Economy

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NATIONAL ECONOMY

US Labor Market

- ▶ 211,000 jobs were added in November, well in excess of the expectation of \$190,000.
- ▶ Unemployment rate held at 5.0%.
- ▶ Salaries and wages increased 0.5% in November and there is growing evidence that wages are gaining traction.

US Consumer Sector

- ▶ Consumer confidence and spending are on the rise.
- ▶ Personal spending increased 0.3% in November.
- ▶ Retail sales increased 0.2% in November.
- ▶ Restaurant sales increased 0.7% in November.

US Housing Market

- ▶ Housing permits grew by 11% in November and 19.5% year over year.
- ▶ Housing starts increased by 10.5% in November and 16.5% year over year.
- ▶ New home sales increased by 4.3% in November.
- ▶ Existing home sales decreased by 3.8% year over year.

Economic Indicators

- ▶ GDP increased by 1.6% during the third quarter of 2015.
- ▶ Budget deficit expected to climb for first time since 2009 to \$544 billion for the current fiscal year.

Economic Indicators (Continued)

- ▶ Dow down approximately 8.5% over the past year.
- ▶ S&P 500 down approximately 6.84% over the past year.
- ▶ Crude oil futures down from approximately \$55 in January 2015 to approximately \$28 in January 2016.
- ▶ The Federal Reserve raised key interest rate for first time in nearly a decade from 0% - 0.25% to 0.25% to 0.5%.

Economic Indicators (Continued)

- ▶ Per the Livingston Study:
 - Real GDP expected to grow 2.5% in 2016.
 - Long-term 10 year GDP expected to grow at an annual rate of 2.25%.
 - CPI expected to increase 1.8% in 2016.
 - Long-term 10 year interest rate expected to grow at an annual rate of 2.25%.
 - Unemployment expected to decrease to 4.8% in 2016.
 - Prime interest rate expected to increase to 4.25% by December 2016.

LONG ISLAND ECONOMY

FAMOUS QUOTE

“Everybody understands that the values in New York City are socially liberal”“and focus on money and the media.”

Long Island Economic Outlook

- ▶ Continued strength in the labor market will play a key role in LI economy.
- ▶ Unemployment at 8 year low (4.1%).
- ▶ Tightening labor market should result in higher wage gain.

Long Island Labor Market

- ▶ As of November 2015:
 - The unemployment rate was 4.1%, compared to 4.6% the previous year.
 - Unemployment in Nassau was 3.8% and Suffolk was 4.2%.
 - Number of private sector jobs on Long Island rose by 2.1% to 1,132,400.

Long Island Consumer Market

- ▶ Sales tax revenue decrease of 1.71% in Nassau County and 0.54% in Suffolk County.
- ▶ However, spending may not have actually increased as the sales tax revenue does not account for internet sales.

Long Island Housing Market

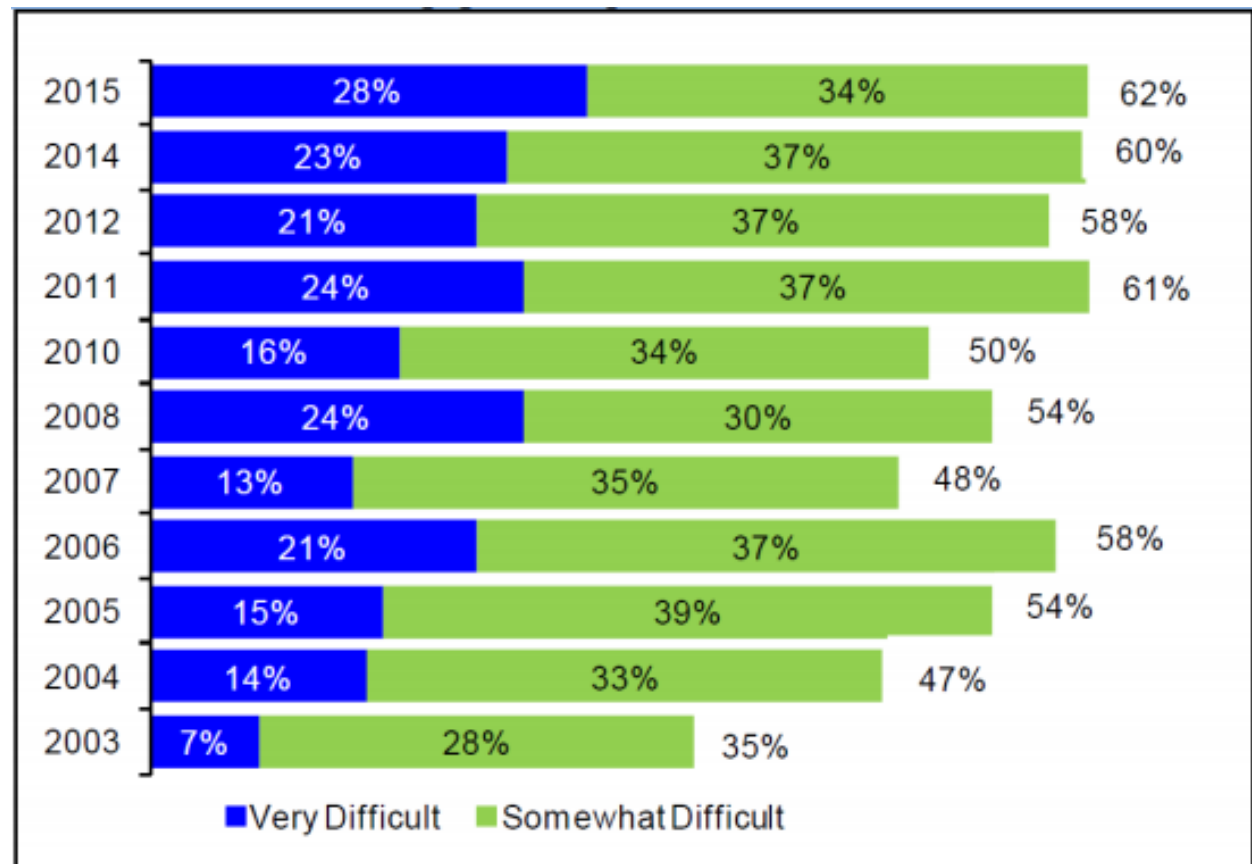
- ▶ As of November 2015:
 - Residential home sales remained flat.
 - Both Nassau & Suffolk county experienced median year of year property sales price increases:
 - Suffolk County median sales price = \$331,000 (1.8%↑)
 - Nassau County median sales price = \$430,000 (1.7%↑)
 - Number of home sales year over year also increased:
 - Suffolk County = 1,117 (10.7%↑)
 - Nassau County = 874 (4.0%↑)

LIA Long Island Survey on House Affordability

- ▶ Long Islanders are concerned about young people leaving.
 - 72% of long island residents think this is a very serious problem.
- ▶ Long Islanders think there is a lack of affordable housing.
 - 60% of long island residents think this is a very or extremely serious problem.
- ▶ 62% of long island residents think that monthly housing costs impose a somewhat or very difficult burden.

LIA Long Island Survey on House Affordability

- ▶ In an average month, how difficult is it for you and your family living with you to pay the rent or mortgage?



PRESIDENTIAL TAX REFORM PROPOSALS

Ordinary Income - The Democrats

▶ Hillary Clinton

- Add a 4% surtax on income over \$5,000,000.

▶ Bernie Sanders

- Establish four new tax brackets of 37%, 43%, 48% and 52% with the top rates applying to taxable income over \$10,000,000.
- Raise the rates of all other brackets by 2.2%.

Ordinary Income – The Republicans

▶ Donald Trump

- Four tax brackets with rates of 0%, 10%, 20% and 25% with the top rates applying to taxable income over \$150,000 for single filers and \$300,000 for joint filers.

▶ Ted Cruz

- Flat tax of 10% on all ordinary income and increase standard deduction to \$10,000 per filer.

▶ Marco Rubio

- Three tax brackets at 15%, 25% and 35% with the top rate applying to taxable income over \$150,000 for single filers and \$300,000 for joint filers.

Capital Gains – The Democrats

▶ Hillary Clinton

- Add a 4% surtax on income over \$5,000,000.
- Raise rates on medium-term capital gains (held less than 6 years) to between 24% and 39.6%.

▶ Bernie Sanders

- Tax capital gains and dividends at ordinary income rates for households with income over \$250,000.

Capital Gains – The Republicans

- ▶ Donald Trump
 - Eliminate the net investment income surtax (3.8%).
- ▶ Ted Cruz
 - Lower the rate on capital gains and dividends to 10%.
- ▶ Marco Rubio
 - Lower the rate on capital gains and dividends to 0%.

Corporate Tax - The Democrats

- ▶ **Hillary Clinton**
 - No specific proposal to date.

- ▶ **Bernie Sanders**
 - No specific proposal to date.

Corporate Tax – The Republicans

▶ Donald Trump

- Lower the top corporate rate to 15%.
- Tax pass-through businesses at 15%.

▶ Ted Cruz

- Replace the corporate income tax with a 16% business transfer tax, which applies to all capital income and labor payments.
- Tax pass-through businesses at 10%.

▶ Marco Rubio

- Lower the top corporate rate to 25%.
- Tax pass-through businesses at 25%.

Estate Tax – The Democrats

▶ Hillary Clinton

- Increase the top estate tax rate to 45% and lower the estate tax exclusion to \$3,500,000.

▶ Bernie Sanders

- Increase the top estate tax rate to 65% and lower the estate tax exclusion to \$3,500,000.

Estate Tax – The Republicans

- ▶ Donald Trump
 - Eliminate the estate tax.
- ▶ Ted Cruz
 - Eliminate the estate tax.
- ▶ Marco Rubio
 - Eliminate the estate tax.

Other – The Democrats

▶ Hillary Clinton

- Caps tax benefit of itemized deductions at 28% of deduction.
- Make American Opportunity Tax Credit permanent.
- Create new minimum 30% rate on individuals earning over \$1,000,000.

▶ Bernie Sanders

- Caps tax benefit of itemized deductions at 28% of deduction and eliminate Pease limitation (3%).
- Eliminate the AMT.
- Raise employer payroll tax by 6.2% and apply social security payroll tax to earnings over \$250,000.
- Create new payroll tax of 0.2% to fund paid family leave.

Other – The Republicans

▶ Donald Trump

- Phase out all itemized deductions except the charitable and mortgage interest deduction.
- Eliminate AMT.

▶ Ted Cruz

- Eliminate all itemized deductions except for charitable and mortgage interest deduction.
- Eliminate all credits except the earned income credit and child tax credit.
- Expand earned income credit by 20%.
- Eliminate AMT.
- Eliminate the payroll tax.

Other – The Republicans

▶ Marco Rubio

- Eliminate all itemized deductions except for charitable and mortgage interest deduction and cap mortgage interest deduction at acquisition debt of \$300,000.
- Create additional child credit of \$2,500 used to offset income and payroll taxes.
- Replace standard deduction, personal exemption and 10% bracket with a refundable personal credit.
- Eliminate AMT.
- Eliminate the additional Medicare tax on compensation over \$200,00.

PROTECTING AMERICANS FROM TAX HIKES ACT OF 2015 (PATH Act)

Complete Act: docs.house.gov/billsthisweek/20151214/121515.250_xml.pdf

PATH Act of 2015

Summary

- ▶ Passed by the House on December 17, 2015.
- ▶ Passed by the Senate on December 18, 2015.
- ▶ Retroactive to the beginning of 2015.
- ▶ First major tax bill since the American Tax Relief Act of 2012.
- ▶ Makes permanent over 20 key tax provisions.
- ▶ Imposes a moratorium on the ACA related taxes.

OBAMA CARE (AFFORDABLE CARE ACT)

FAMOUS QUOTE

“For many, the American dream has become a nightmare.”

Affordable Care Act Tax

- ▶ 2 year moratorium on the ACA medical device excise tax (2.3% tax on manufacturers / imports of medical devices). [Begins 2018]
- ▶ 2 year moratorium on the ACA excise tax on “Cadillac” health insurance plans (> \$10,200 single and \$27,500 family). [Begins 2020]
- ▶ 1 year moratorium on ACA health insurance provider fee (fee collected by government from the insurer). [Begins 2017]

Obama Care Tax Increases

- ▶ *Penalty for uninsured individuals*
 - 2014 – Higher of
 - 1% of your household income
 - \$95 per person (\$47.5 per child under 18), not to exceed \$285.
 - 2015 – Higher of
 - 2% of your household income
 - \$325 per person
 - 2016 – Higher of
 - 2.5% of your household income
 - \$695 per person
 - 2017+ is indexed for inflation

2015 Obama Care Tax Increases Continued...

- ▶ *Penalty for employers not offering coverage (delayed from 2014 to 2015)*
 - Applies to employers of 100 or more full-time equivalent employees who do not provide affordable health insurance.
 - \$2,000 per year per full time employee over 80 employees (First 80 employees exempt).
 - If any employee actually receives coverage through an exchange with a premium tax credit, the penalty is the lesser of:
 - \$3,000 for each employee that receives coverage through the exchange
 - \$750 for each full-time employee
 - Note: This fee is not tax deductible

2016 Obama Care Tax Increases

Continued...

- ▶ *Penalty for employers not offering coverage (2016)*
 - Applies to employers of 50 or more full-time equivalent employees who do not provide affordable health insurance.
 - \$2,000 per year per full time employee over 30 employees (First 30 employees exempt).
 - If any employee actually receives coverage through an exchange with a premium tax credit, the penalty is the lesser of:
 - \$3,000 for each employee that receives coverage through the exchange
 - \$750 for each full-time employee
 - Note: This fee is not tax deductible

TAX PROVISION EXTENDERS

FAMOUS QUOTE

“We don’t need a new idea. There is an idea. That idea is called America and it still works.”

Tax Provision Extenders – Permanent Deduction for State and Local Sales Tax

- ▶ Prior law allowed taxpayers to deduct State and Local Sales Taxes in lieu of deducting State and Local Income Tax.
- ▶ The ACT extends this provision permanently.

Tax Provision Extenders – Permanent Eligible Educator Deduction

- ▶ Teachers in grades K – 12, are allowed a deduction from gross income in arriving at AGI, for up to \$250 of teaching expenses incurred.
- ▶ The ACT extends this provision permanently.
- ▶ The ACT increases the amount for inflation beginning in 2016 and includes “professional development expense” (courses).

Tax Provision Extenders – Permanent Mass Transit Parity

- ▶ Mass transit passes (van, transit passes, parking) qualify for pre-tax treatment up to \$250 per month.
- ▶ The ACT extends this provision permanently.
- ▶ The ACT increases the amount for inflation beginning in 2016 (\$255).

Tax Provision Extenders – Permanent Child Tax Credit

- ▶ Credit refundable up to \$1,000 per qualifying child to the extent of 15% of the taxpayers earned income in excess of \$3,000.
- ▶ The ACT makes the earned income threshold account of an unindexed \$3,000 permanent.

Tax Provision Extenders – Permanent Earned Income Credit

- ▶ The increase in phase-out amount for joint filers of \$5,000 and increased 45% credit percentage for taxpayers with 3+ qualifying children is made permanent with the ACT.

Tax Provision Extenders – Permanent Distributions from IRAs for Charitable Contributions

- ▶ Taxpayers who obtained the age of 70 ½ on the date of the contribution could make their contributions directly from their IRA up to \$100,000.
- ▶ The ACT extends this provision permanently.

Tax Provision Extenders

Above the Line Deduction for Qualified Tuition

- ▶ Prior law allowed a deduction for qualified tuition and related expenses. The maximum amount was \$4,000 per year.
- ▶ The ACT allows these for tax year 2015 and 2016.

Tax Provision Extenders

Exclusion of Discharge of Debt on a Qualified Principal Residence

- ▶ Taxpayers could exclude from gross income up to \$2 Million of discharge of indebtedness on their qualified principal residence.
- ▶ The ACT extends this provision for 2015 and 2016.

Tax Provision Extenders

Mortgage Insurance Premiums Treated as Qualified Residence Interest

- ▶ Certain federally insured mortgages require borrowers to obtain mortgage insurance. Prior law allowed these borrowers to deduct the mortgage premiums as additional acquisition indebtedness interest. The MIP was able to be allocated over the shorter of the term of the loan or 84 months.
- ▶ The ACT provides for this treatment for tax year 2015 and 2016.

Tax Provisions Extenders Business Extensions

- ▶ Section 179 deduction amount (\$500,000) and the threshold amount (\$2,000,000) are permanently extended with both amounts indexed for inflation beginning in 2016.
- ▶ Bonus depreciation is extended for five years as follows:
 - 2015 – 2017: 50%
 - 2018: 40%
 - 2019: 30%

Tax Provision Extenders

Other Business Extensions

- ▶ Exclusion of 100% of the gain on small business stock (C Corp) held for more than 5 years is permanently extended.
- ▶ The reduced built-in gains (BIG) tax recognition period of 5-years is permanently extended.
- ▶ The research credit is permanently extended.

Tax Provision Extenders: Work Opportunity Credit

- ▶ Tax credit available to employers for hiring individuals from certain target groups:
 - Veterans
 - Temporary Assistance for Needy Families recipient
 - Food stamp recipient
 - Designated community resident
 - Vocational rehabilitation referral
 - Ex-felon
 - Supplemental security income recipient
 - Summer youth employee
 - Certain Long-term Unemployed (NEW)

- ▶ Work Opportunity Tax Credit is extended through 2019.

FAMOUS QUOTE

“No one is too big to jail.”

OTHER TAX INFORMATION & FACTORS

Other Tax Information & Factors

- ▶ 2015 tax returns began to be accepted on January 19, 2016.
- ▶ 2015 tax return due date is Monday, April 18, 2016.
- ▶ Personal Exemptions
 - 2015 – \$4,000
 - 2016 – \$4,050
- ▶ Maximum Earned Income Credit
 - 2015 – \$6,242
 - 2016 – \$6,269

Other Tax Information & Factors (Continued)

- ▶ **Standard Deduction (2015)**
 - Single – \$6,300
 - Head of Household – \$9,250
 - Married Filing Joint – \$12,600

- ▶ **Standard Deduction (2016)**
 - Single – \$6,300
 - Head of Household – \$9,300
 - Married Filing Joint – \$12,600

Other Tax Information & Factors (Continued)

- ▶ **Itemized Deduction Limitation Begins (2015)**
 - Single – \$258,250
 - Married Filing Joint – \$309,900

- ▶ **Itemized Deduction Limitation Begins (2016)**
 - Single – \$259,400
 - Married Filing Joint – \$311,300

- ▶ **Reduced by the lesser of 3% of AGI above the threshold or 80% of the total amount of otherwise allowable itemized deductions.**

Other Tax Information & Factors (Continued)

- ▶ Mileage Rate
 - 2015 – 57.5 cents
 - 2016 – 54.0 cents

- ▶ AMT Exemption
 - 2015 (Individual) – \$53,600
 - 2015 (MFJ) – \$83,400
 - 2016 (Individual) – \$53,900
 - 2016 (MFJ) – \$83,800

Other Tax Information & Factors (Continued)

▶ Foreign Earned Income Exclusion

- 2015 – \$100,800
- 2016 – \$101,300

▶ FSA Contributions

- 2015 – \$2,550
- 2016 – \$2,600

▶ HSA Contributions

- 2015 Individual – \$3,350
- 2015 Family – \$6,650
- 2016 Individual – \$3,350
- 2016 Family – \$6,750

Other Tax Information & Factors (Continued)

- ▶ Retirement Plan Limits
 - 2015 & 2016 IRA – \$5,500 (+\$1,000 catch-up)
 - 2015 & 2016 Defined Contribution – \$53,000
 - 2015 & 2016 401(k)/403(b) deferral – \$18,000

Other Tax Information & Factors (Continued)

- ▶ Hope Scholarship Credit
 - 2015 Max – \$2,500
 - 2016 Max – \$2,500

- ▶ Qualified Pensionable Compensation Limits
 - 2015 Salary Cap – \$265,000
 - 2016 Salary Cap – \$265,000

- ▶ Social Security Taxable Wage Base
 - 2015 – \$118,500
 - 2016 – \$118,500

- ▶ Salary to determine highly compensated employee
 - 2015 – \$120,000
 - 2016 – \$120,000

Other Tax Information & Factors (Continued)

- ▶ **Federal Estate Tax Exemption**
 - 2015 – \$5,430,000
 - 2016 – \$5,450,000

- ▶ **Federal Gift Tax Exclusion**
 - 2015 – \$14,000
 - 2016 – \$14,000

NY STATE TAX

NY State Taxes

Estate Taxes

▶ Exclusion Amount:

- April 1, 2014 – March 31, 2015: \$2,062,500
- April 1, 2015 – March 31, 2015: \$3,125,000
- April 1, 2016 – March 31, 2015: \$4,187,500
- April 1, 2017 – December 31, 2018: \$5,250,000
- January 1, 2019 forward: Matches IRS exclusion

NY State Taxes

NY Family Tax Relief Credit

- ▶ Refundable credit for 2015/2016 claimed with tax return through Form IT-114.

- ▶ \$350 payment to certain middle-income New Yorkers.

- ▶ Eligibility:
 - Were a resident of NY State for entire year.
 - Claimed a child under the age of 17 as a dependent.
 - Had NYS AGI of between \$40,000 and \$300,000.
 - Had a NY State liability after credits.

NY State Taxes

NY Property Tax Freeze Credit

- ▶ Refundable credit paid in advance, not with return.

- ▶ Tax relief program that reimburses homeowners for increase in local property tax on their primary residence.
 - 2015 –municipal taxes now also qualify.

- ▶ Eligibility:
 - Received STAR property exemption (primary residence with household income of \$500,00 or less)
 - School district must comply with tax cap.

FAMOUS QUOTE

“I think apologizing’s a great thing, but you have to be wrong. I will absolutely apologize, sometime in the hopefully distant future, if I’m ever wrong”

QUESTIONS???



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