TaxAct

TaxWatch 2016

The TaxWatch report includes information about your federal income tax situation so you can plan for or take advantage of tax laws in the upcoming tax years. The contents of this report are specific to your tax situation based on the information provided on your 2015 return.

Marginal Tax Rate

The marginal tax rate is the federal income tax rate that will be applied to any additional income that you might receive. For example, if your marginal tax rate is 28%, the next $100 of additional income that you earn will result in $28 of additional tax.

Based on your tax information for 2015, your marginal tax rate is **15%**. This marginal tax rate will apply to the next $20,021 of income.

Effective Tax Rate

The effective tax rate is the actual percentage of your total income that you pay in federal income tax.

For tax year 2015, your effective tax rate is **8.710%**.

Where Does Your Tax Money Go

Your Money Is Spent On	Your Share	%
National Defense	$2,614	18%
Veterans and Foreign Affairs	$581	4%
Medicaid, Food Stamps, and Related Social Programs	$2,324	16%
Unemployment, Social Services and Health Research/Programs	$871	6%

Social Security, Medicare, and Other Retirement	$6,100	42%
Net Interest on the National Debt	$871	6%
Law Enforcement and General Government	$290	2%
Physical, Human, and Community Development	$872	5%
Total Paid	$14,523	100%

Be Your Own Bank

One benefit of your 401(k) retirement plan is the ability to borrow money from your plan. When you have a serious short-term need for cash, a loan from your 401(k) is a quick, cost-effective way of borrowing, and it generally does not create a taxable event.

A loan from your 401(k) can be easier to obtain than a regular loan because there is no actual lender and no examination of your credit rating. Also, the interest you pay on the loan is added back to your 401(k), so you are paying yourself the interest.

However, a loan from your 401(k) plan may not always be your best option. When you repay the loan, you are using after-tax dollars, and the money will be taxed again when you withdraw from your 401(k) plan after retirement. The amount you can borrow from your 401(k) plan is often limited to 50% of your vested account balance. Also, you should plan to stay at your job as long as you have the loan because most plans require the loan to be repaid immediately if you quit your job. Quitting your job without repayment of the loan will make the balance of the loan a taxable distribution.

Don't Forget To Rollover

Putting money into a retirement plan can be a real financial advantage, but taking money out of a retirement plan before you turn 59 1/2 can be a real financial disaster. If you take money out of a retirement plan early, there is a 10% penalty on the income in addition to the normal tax you pay on the distribution.

If you are changing jobs and your employer asks if you are going to roll your account over or take the money, take the rollover. Most of the time you can roll the fund directly to your new employer's plan. A bank, savings and loan, or brokerage, could also assist you with setting up an IRA account for your rollover. Generally, you will have 60 days after you receive the distribution to complete the rollover. In most cases a direct rollover from one plan to the other is the best way to handle the situation.

If you withdraw funds from your plan, the double whammy of the tax and the penalty can really hurt on April 15th and leave you wondering if what was left after taxes was really worth keeping the money after all.

For more detailed information, please click on the following TaxTutor Guidance link for: **Direct Rollover or Personal Rollover**

Will Power

If you don't have a will, your state has one for you - and it is probably not what you would have chosen. Make sure that your loved ones and assets are protected by taking the time to prepare a will. If you already have a will in place, it is a good idea to review it periodically to ensure that it is up-to-date with your financial and family information.

Confirm Your Beneficiary

Any funds left in your retirement plan at your death will pass to the beneficiaries named in the plan document. Even if you have a will that is up-to-date, the retirement plan money will generally pass to the people named on the plan document. From time to time, you should review your beneficiary information to verify it corresponds with your current situation.

Expect The Best, Prepare For The Worst

You can never fully prepare for a disaster, but there is one simple thing you can do to make things easier financially if disaster does strike. Making a home inventory, complete with serial numbers and pictures of the most valuable items, will make filing an insurance claim much easier and more complete in the event of a catastrophic fire or natural disaster. Make sure to keep the list somewhere safe and preferably not in your home. Take it to work, put the list in a safety deposit box, or give it to a friend or family member for safekeeping and easy recovery in an emergency.

For more detailed information, please click on the following TaxTutor Guidance link for: **Deductible Casualty Losses**

College Credit

Having a child in college can present a number of financial challenges. However, the American opportunity education credit can help soften the blow of educational expenses. The credit can be as much as $2,500, with a maximum refundable portion of $1,000, based on the tuition paid for the first four years of post-secondary education. The student must be enrolled in a program that leads to a degree or certificate and must be taking at least one-half the normal full time course load.

As long as you can continue to claim the student as a dependent on your return, you are entitled to claim the credit on your return, regardless of whether you or the student actually paid the tuition expenses.

For more detailed information, please click on the following TaxTutor Guidance link for:
Education Tax Credits

Put Your Children To Work

If you are self-employed or have a side business, you could consider hiring your child(ren) to perform tasks for which they are qualified in your business. By paying your child(ren) a reasonable wage for their work, you can deduct the wages as an expense from the business income. Your child(ren) can then use the money to purchase the clothes, shoes, and entertainment you may have eventually paid for anyway. Generally, your child may have total earned income up to $6,300 without having to pay any tax of their own. You child must perform some labor or service that is of value to your business and the compensation must be appropriate for the task.

Leaving The Nest

The age of your child and his or her status as a student are the principal criteria in determining if you may continue to claim that child as a dependent on your return. A child who is under age 19 may earn as much income as he or she likes and you may still claim him or her as a dependent as long as you provide more than one half of the total support and the child lives with you for more than half of the year. A child who is over 18 and is still a full time student would also meet the same income exemption. Once your child turns 19, the child must either be a full time student or earn less than $4,050 in order for you to continue to claim the exemption on your return. If you have a child who you will no longer be able to claim as a dependent, you may want to adjust your withholding.

Prepay Or Defer Medical Expenses

Medical expenses are only deductible if they exceed 10% of your adjusted gross income (7.5% if you are 65 or over). This limitation prevented you from receiving a tax deduction for your medical expenses this year. To the extent that it is feasible medically, you may realize some tax advantage by accelerating or deferring some discretionary medical expenses into another year. By trying to move a few expenses from one year to the next, you may be able to qualify for the deduction in one of the years, where otherwise you would not have qualified in either year.

For more detailed information, please click on the following TaxTutor Guidance link for: **When To Deduct Medical Expenses**

Lifetime Opportunity

If you paid qualified tuition and related expenses for an eligible student, you may qualify for the Lifetime Learning Credit (LLC). The LLC is a nonrefundable tax credit that is worth up to $2,000 per return.

Taxpayers are eligible to receive the credit for most educational expenses from graduate degree courses to noncredit courses that help acquire or improve job skills. There is also no limit on the course load. One course is all that is necessary to be eligible.

For more detailed information, please click on the following TaxTutor Guidance link for: **Lifetime Learning Credit**

The Interest Of Higher Education

If you have, or are considering, student loans to pay for a college education, the interest on those loans may be deductible. Interest on student loans are not an itemized deduction and you can receive the benefit of deducting them even if you do not have itemized deductions. A maximum deduction of $2,500 per year is available for individuals with income less than $65,000 ($130,000 for married filing joint). The deduction is reduced at higher incomes levels and is completely eliminated for incomes greater than $80,000 ($160,000 for married filing joint).

For more detailed information, please click on the following TaxTutor Guidance link for: **Student Loan Interest Deduction**

It's A Win-Win-Win Situation

Give your excess clothing and household items to charity. By donating your unwanted items, you may be entitled to deduct as an itemized deduction on your return the fair market value of the items donated. It is a great way to clean out your closets, help a worthwhile charity, and get a tax break.

Make sure to keep some documentation of what items were donated and get a dated receipt from the organization showing a donation was made. Items donated must be in good used condition or better to be deductible.

For more detailed information, please click on the following TaxTutor Guidance link for: **Donating Property**

Deductible IRA

You may be able to benefit from a deductible traditional IRA contribution. The principal benefit from the traditional IRA contribution is being able to deduct the amount of the contribution from your income in your tax return. The second, longer term tax benefit, is that the funds inside the IRA will continue to grow tax-free, which increases the rate of return when compared to a traditional taxable investment.

For more detailed information, please click on the following TaxTutor Guidance link for: **Traditional IRAs**

Tax Rates

The current rates of 10%, 15%, 25%, 28%, 33%, 35%, and 39.6% will remain. This top rate will apply to those making over $415,050 if single; $466,950 if married filing joint; $441,000 if head of household; and $233,475 if married filing separate.

The maximum rate for capital gains is 20%. However, this only applies to taxpayers with incomes exceeding $415,050 ($466,950 for married filing joint). For taxpayers with ordinary income taxed at a rate below 25%, capital gains and dividends will be taxed at a 0% rate. For taxpayers who are subject to a 25% or greater rate on ordinary income, but whose income falls below the max $415,050/$466,950 threshold, income will continue to be subject to a 15% rate on capital gains and dividends.

Tougher to Deduct Medical Expenses

As part of the Affordable Care Act, the threshold to deduct medical expenses has been increased. You can deduct unreimbursed medical expenses only to the extent the expenses exceed 10% of your adjusted gross income (AGI) (instead of 7.5%). This could make it more difficult for you to receive any tax benefits by claiming unreimbursed medical expenses as an itemized deduction. However, for those who are age 65 or older, the 7.5% threshold remains in place through 2016.

Based on your information for this year, the following tax law changes taking effect in 2016 may be applicable to your tax situation.

The Affordable Care Act and Your Tax Return

Starting in 2016, the penalty for not having proper health coverage rises to 2.5% of your annual 2016 income or $695 per person, whichever is higher.

If you get your health insurance coverage through the Health Insurance Marketplace, you may be eligible for the premium tax credit. This tax credit can help make purchasing health insurance coverage more affordable for people with moderate incomes. The Open Enrollment Period for 2017 coverage is October 1, 2016 through December 15, 2016.

For any tax year that you receive the advance credit payments, or if you plan to claim the premium tax credit, you must file a federal income tax return for that year.

For more information on the Affordable Care Act visit **www.HealthcareACT.com (https://www.HealthcareACT.com)** and HealthWatch 2016, both powered by TaxAct.

Personal Exemption Amount

In 2016, you will be allowed to deduct $4,050 for each person claimed on your return.

IRA Contribution and Deduction Limits

The contribution limit of a traditional or Roth IRA for 2016 is now at $5,500. If you reach age 50 before 2016, this limit is increased to $6,500. Individuals who are covered by a retirement plan at work may only make deductible IRA contributions if their income is under certain thresholds. For 2016, that threshold is $71,000 if single or head of household, $118,000 if married filing jointly or qualifying widow(er), and $10,000 if married filing separately.

Maximum for Retirement Plan Contributions

For 2016, the maximum amount that may be contributed to a qualified retirement plan is $18,000 ($24,000 if you are age 50 or over). For SIMPLE plans, the limit is $12,500 ($15,500 if you are age 50 or over).

Social Security Maximum

The maximum amount of wages or self-employment earnings that will be subject to the social security tax will be $118,500 in 2016.

Section 179

The section 179 deduction allows you to recover all or part of the cost of certain qualifying property, up to a limit, by deducting the cost of the asset the year you place the property in service. You can elect section 179 instead of taking depreciation.