

Tax Tidbits



Volume 17, Issue 2

October 2015

Things are Changing

Hello from the new location of our Tax and Business Services Department and our Insurance Services affiliate at 447 E. Water Street. Our move was successful and we are enjoying our new facility and being closer to our main office located at 400 E. Water Street, both in Elmira.



Thank you for attending our Open House on October 28 and taking a tour of our new building. We hope that you enjoyed it as much as we did.

There are a number of hot topics for 2015. Among them are tax issues that are having an effect on individuals, as well as businesses. The employer mandates of the Affordable Care Act are putting some very important changes into place that need to be implemented, especially by large employers. Some of these changes include the level of employee participation and reporting guidelines to employees and policyholders.

The graying of America has brought a lot of attention to the area of retirement rollovers, conversions and distributions. Whether it is due to retiring from a company and moving your 401(k) money to an IRA or one of the spouses dies and the other spouse inherits the funds or a taxpayer passes on and leaves the funds to an unrelated third party. These are all tax issues brought about by change that need careful scrutiny and handling from a tax perspective.

For business, the Capitalization and Repairs compliance rules are affecting almost all companies. The groundswell changes that have been put into place by this legislation will have an effect on how companies write off versus capitalize expenditures for repairs to equipment, buildings and assets in general. Compliance with these rules will typically require

the filing of at least one Form 3115, Application for Change in Accounting Method, as well as the computation of a specific adjustment called for by the Internal Revenue Code for many of a taxpayer's current accounting methods that need to be changed to a method required under the final regulations.

The ability of partners and S corporation shareholders who are individuals, estates, trusts, closely held C corporations and personal service corporations to deduct losses allocated to them by partnerships and S corporations, respectively, is limited by the passive loss rules. Partners and S corporation shareholders who are subject to the passive activity rules can only offset passive activity losses against passive activity income from other sources. This can be a very complicated area of the tax law and will require professional tax guidance to assure compliance with the law.

International tax reporting has been a very hot topic in the last few years. Anybody with a foreign bank account, whose account balance exceeds \$10,000 for even one day, must comply with the foreign reporting rules. The problem stems from some people having income bearing accounts in foreign banks and not reporting the income on their U.S. tax returns. The government has really started cracking down on those taxpayers that do not report that income. As such, there are reporting rules where you need to report not only the balances in the foreign accounts but, if the account balance is high enough, you need to report the income as well, besides paying taxes on it. The penalties for not complying with the rules are very severe.

The list could go on and on. We take special care in all of the situations that bring change to your life and may help you through the tax maze that usually follows.

*Paul E. Hornbuckle, CPA
Vice President of Tax and Business Services*

Please note that our Tax and Business Services Department, our Insurance Division and our Investment Advisors are available to answer any questions that you may have regarding the articles in this publication. We look forward to hearing from you.

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Increased Penalties for Failing to Issue Form 1099-MISC

If you are engaged in a trade or a business, you are required to issue Form 1099-MISC in certain circumstances or face penalties. For 2015 returns and statements required to be filed after December 31, 2015, the penalties have increased from \$100 to \$250 for each Form 1099-MISC not filed with the Internal Revenue Service and an additional \$250 for not issuing Form 1099-MISC to the recipient. That's up to \$500 per occurrence.



Form 1099-MISC will need to be filed for each person or business that you have paid at least \$600 to in rents, services performed by someone who is not your employee, prizes, awards or other income payments, to name a few. In addition, attorneys' fees of \$600 or more paid in the course of your trade or business will need to be reported on Form 1099-MISC. Amounts paid to your employee for wages, travel, auto allowance, bonuses and prizes need to be reported on Form W-2 and not on Form 1099-MISC.

There are exceptions to the filing requirements. Payments made for merchandise do not have to be reported on Form 1099-Misc. Also, payments made to a corporation generally do not have to be

reported on Form 1099-Misc. For example, if you hire someone for snow removal at your business, Form 1099-MISC will need to be filed if that contractor is not incorporated. If that same contractor cares for your personal residence, no Form 1099-MISC needs to be issued. Personal payments are not reportable.

Form 1099-MISC is required to be issued to the recipient by February 1 and filed with the Internal Revenue Service by February 28 or February 29 in the case of a leap year. If you file Form 1099-MISC electronically, the due date is extended to March 31.

*Elizabeth A. Zarnoch, EA
Tax and Business Services Manager*

Rental Car Coverage - Do I Need It?

Many of you, like me, have been at the rental car counter, listening to the representative ask if you want to purchase the rental company's insurance and the thoughts start racing through your head. "Is this valid coverage? Doesn't my regular auto policy cover me? What about my credit card? Why didn't I look into this before I left on my trip?"



We are here to help you answer those questions. While all situations are not the same, we have some general tips that may help you make an informed decision the next time you're standing at the counter.

1. Know your personal auto policy.

Because insurance policies vary, it's a good idea to give us a call — before you rent a car — to make sure you have the coverage you need. In many instances, your personal auto policy will provide coverage for a rental car — but that coverage may be limited to the value of the car you own rather than the one you're renting. Of course, if you don't have a personal auto policy, you'll need to purchase coverage from the rental company.

Keep in mind that in the event of an accident, many rental companies will charge fees beyond repair costs. They may assess "a loss-of-use" fee for each day the car is unusable, as well as charge you since the value of the car now has decreased. Not all insurance policies cover these fees.

2. Also know your homeowners or renters policy.

If you're traveling with expensive electronics or other valuable items, you probably want to consider what coverage you'll have in the event that they are stolen. Your personal auto policy and/or credit card coverage likely won't provide protection for this scenario.

3. Check your credit card protection.

Most credit cards will also provide some coverage, but often payment is limited to reimbursement of your personal auto policy deductible (after that policy pays for repairs). Generally, "loss-of-use" and other fees are not covered, but it's important to check with your credit card provider to determine their policies. While some cards may offer additional protection for a fee, usually coverage is limited to damage to the car, not liability for any injuries to others. Remember, to receive any sort of benefit from your card, you must use that card to pay for your entire car rental.



4. Consider any unique circumstances.

Are you renting a car in a foreign country or for more than a week? You'll definitely want to get confirmation of coverage from both your insurance carrier and credit card company because different rules might apply. Also, no matter where you are, vehicles such as trucks, RVs or exotic sports cars often aren't covered under standard agreements. If you're using a car for business purposes, your personal coverage might not apply. Finally, if multiple people will be driving the car during your trip, make sure your coverages will apply to them.

5. Learn about the insurance offered by the rental car company.

According to the Insurance Information Institute, rental companies offer four main types of coverage.

A Loss Damage Waiver (LDW) relieves you of responsibility if your rental car is damaged or stolen. This may also provide coverage for "loss-of-use". Liability Protection provides protection from

See Insurance Review on Page 4

Three Ways to Defuse Estate Rifts

It is impossible to know what will happen to your family after you are gone, but it is not likely you are envisioning a bitter squabble over your possessions. Yet many a family is torn apart when a patriarch or a matriarch leaves this world. Although there are no guarantees the claws won't come out, here are three documents that may reduce the potential for a serious rift:



1. A Will. Virtually every adult with assets of any value needs a will. Typically, a will is the centerpiece of an estate plan and covers everything from appointing guardians for young children and addressing estate tax issues to determining who will receive your most valuable assets. A will gives you the opportunity to spell out who will inherit the beach house or expensive jewelry as well as other items of sentimental value.

A properly executed will is legally enforceable, so it is crucial that your will

meets all of the technicalities of your jurisdiction. If you have significant assets, you will probably need to hire an attorney to draw up the document. It is likely that it will need to be updated in the future as your family circumstances change.

2. Personal Property Memorandum.

Your will won't cover every last trinket you own and it is a hassle to revise it all the time for minor changes. A personal property memorandum can supplement a will and may be referred to in the will itself. The memorandum can list all of your personal assets and your intended beneficiary for each item.

More than half of the nation's states have laws recognizing a personal property memorandum as legally binding. To avoid confusion, include a detailed description of your property. Make sure your executor has an official copy of both the will and the memorandum.

3. Letter of Instruction. This is the last piece of the puzzle. Although a letter of instruction isn't legally binding, it can clarify certain issues and provide additional guidance to your heirs. The letter may include:

- The location of important documents such as your will, insurance policies, titles and deeds
- Details of cemetery plots and funeral arrangements
- Contacts for legal, tax and financial information
- A list and descriptions of all financial assets, including savings and checking accounts, stocks, bonds and retirement accounts
- The location of your tax returns for the past three years
- The location of safe deposit boxes and keys
- Other special requests (for example, preferences for grandchildren attending college)

Last, but not least, your family members need to know about these three documents and where to find them. Hopefully with this pre-planning and documentations, some of the stress may then be reduced to a more manageable level for your family.

Joseph M. Valicenti
President/CEO

Year-End Strategies

The "2 Pronged" Gift

In 2015, you can give up to \$14,000 to anyone without any gift tax consequences. This includes a child or a grandchild. If you are married, your spouse can also give \$14,000 to the donee, which doubles the tax-free amount of the gift to \$28,000. Gifting close to year-end will allow you to give a donee the maximum. For example, in the last week of the 2015 year and then again in the first week of the next year, for the 2016 year. These types of gifts are not added back to your estate upon your passing.

Another strategy for giving is making direct payments of tuition and medical expenses. These types of gifts do not count against your annual \$14,000 gift exclusion and they reduce your taxable estate.

Charitable Donations

Another year-end strategy is to make donations of appreciated assets, such as stock or bond investments. The appreciation on investment value is not subject to capital gains tax upon transferring the assets to the charity and you get a tax deduction for the full value of the asset as long as you have held the asset for more than a year. Donations are subject to adjusted gross income limitations. The unused portion of a donation, however, is carried over to the next year and thereafter, until used up.

Donating clothing and other non-cash assets (i.e. furniture, small appliances, food) can get you some great deductions to write off on your taxes and will help you clean up your house or apartment. You must have good records of the items donated and you need to have a receipt from the agency to which you are donating. The

Salvation Army, for example, will stamp your list of donated items as received and will sign the stamp. This form of substantiation has been proven to hold up in an IRS audit. To assign values to your donated items, you can use several websites on the Internet to determine the value of your donated goods to use on your tax return. If the value of your donated goods exceeds \$500, Form 8283 must be completed. If you donate an item with a value of more than \$5,000, you must obtain an appraisal to be submitted with your tax return. If you donate a car, boat or other large ticket item, the charity must acknowledge receipt of the item by issuing you a Form 1098-C, which you must submit with your tax return.

Paul E. Hornbuckle, CPA
Vice President of Tax and Business Services

2015 Retirement Plan Limits

Contained herein are the retirement account plan contribution limits as set by law. These limits range from outright dollar limits to levels of income that you cannot exceed in order to make contributions to the particular retirement plan. The government has set these limits and has included cost of living factors to keep these amounts on track with inflation. The government wants you to save for retirement; however, if there were no limits to the amounts of income that people may defer, the government would lose tax revenues. We trust that this will help with your long-term goals and current tax situation.



*Kathleen O'Herron, CPA
Staff Accountant*

Account Type		2015 Limit
IRA	Traditional & Roth IRA Contribution Limit	\$5,500
	Catch-up Limit for Individuals Age 50 & Older	\$1,000
SIMPLE IRA	Elective Deferral Limit	\$12,500
	Catch-up Limit for Individuals Age 50 & Older	\$3,000
	Maximum Employer Match (Catch-up Deferral is also Matched if Over Age 50.)	\$12,500
	Maximum Employer Non-Elective Contribution	\$5,300
SEP IRA	Maximum SEP Contribution	\$53,000
401(k), SARSEP, 403(b), and Government 457(b)	Elective Deferral Limit	\$18,000
	Catch-up Limit for Individuals Age 50 & Older	\$6,000
Profit Sharing, 401(k), and Money Purchase Pension	Defined Contribution Limit	\$53,000
Profit Sharing, 401(k), SEP and Money Purchase Pension	Employee Annual Compensation Limit	\$265,000
401(k), SARSEP, 403(b), and Government 457(b)	Highly Compensated Employee Limit	\$120,000

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Insurance Review

(Continued from Page 2)

lawsuits if you are sued after an accident. Personal Accident Insurance covers you and passengers for medical bills after an accident. You may not need this if you have adequate health and auto coverage. Personal Effects Coverage protects you if items are stolen from your car. You generally are covered for this under your homeowners or renters policy, but keep in mind that the loss must exceed your deductible for you to receive payment. If you have a high deductible, it may make sense to purchase this coverage from the rental company.

When you go on vacation, you don't want to stress about insurance, so give us a call before you leave. Then, when you head over to the rental car counter, you may stop worrying about your coverage — and start enjoying your trip!

Please note that we represent multiple lines of insurance and our current licensed agents have combined experience of over 75 years. We would welcome the opportunity to meet with you, at no charge, to discuss our services and how we may help you with your insurance needs. An email to info@valicentiins.com or a phone call to (607) 215-0242 will start the process.

Suzanne M. Valicenti
President/CEO



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