Tax Tidbits

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Another Tax Season Come and Gone

Tax season represents a time to see friends, to reconnect with clients and to help the people that matter most in our professional lives – our clients. It is a time to close out the old year and start conversations regarding the New Year.

All of us here at Valicenti's want to take the time to thank you for making this tax season a successful one. We appreciate your business and referrals. Every year gets better and better and we owe it all to you.

We are already gearing up for next year's filing season as well as getting ready to serve you and your tax and business needs in 2016. Please call us with your questions or concerns as we are here all year.

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

Quality means doing it right when no one is looking.

—Henry Ford, Industrialist

Tips to Keep Your Tax Records Secure; Protect Yourself from Identity Theft

If you are still keeping old tax returns and receipts stuffed in a shoe box in the back of a closet, you will want to rethink that approach.

The IRS has teamed up with state revenue departments and the tax industry to make sure that you understand the dangers to your personal and financial data. Working in partnership with you, we can make a difference.

Whether stored on paper or kept electronically, you should keep your tax records safe and secure. The same is true for any financial or health records you store, especially any documents showing Social Security numbers.

Due to the sensitivity of the data, the loss or theft of these documents could lead to identity theft and could have an economic impact. These documents contain your Social Security number and those of your spouse and your dependents, old W-2 income statements and bank account information. A burglar could easily turn your old shoe box full of documents into a tax related identity theft crime.

Here are just a few of the easy and practical steps to better protect your tax records:

- Always retain copies of your completed federal and state tax returns and their supporting materials. These prior year returns will help you prepare your next year's taxes and receipts will document any credits or deductions you claimed should questions arise later.
- If you retain paper records, you should keep them in a secure location, preferably under lock and key.
- If you retain your records electronically on your computer, you should always have an electronic back-up, in case your hard drive crashes. You should encrypt the files both on your computer and any back-up drives you use. You may have to purchase encryption software to ensure the files' security.
- Dispose of old tax records properly. Never toss paper tax returns and supporting documents in the trash. Your federal and state tax records, as well as any financial or health records should be shredded before disposal.
- If you are disposing of an old computer or a back-up hard drive, keep in mind there is sensitive data on these. Deleting stored tax files will not remove them from your computer. You should wipe the drives of any electronic product you trash or sell, including tablets and mobile phones, to ensure you remove all personal data. This may require special disk utility software.

The IRS recommends retaining copies of your tax returns and supporting documents for a minimum of three years to a maximum of seven years to support claims for tax credits and deductions. Remember to keep records

*See **Tips** on Page 2*

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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Defensive Driving

Valicenti Insurance Services, Inc. has partnered with the National Safety Council to provide defensive driving courses at our three locations, beginning in June 2016. The benefits of taking a defensive driving course vary by state, but often include a reduction of points on your driver's license following a ticket. In New York State, taking the defensive driving course can also mean up to a 10% reduction in your liability and collision insurance premiums for a period of three years.

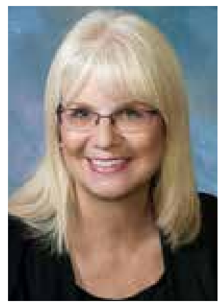
The Defensive Driving class is being taught by Frances Allis, Licensed Agent. She is a certified instructor and has been teaching classes throughout New York State for over seven years.

Classes are being offered either in a two part session on Tuesday and Wednesday evenings at our Market Street location in Corning or during an all day session at one of VASI's Elmira Water Street offices. The classes for the upcoming month are as follows:

- Tuesday, June 14 and Wednesday, June 15, 6:00 p.m. – 9:30 p.m. (both sessions must be attended to receive credit for the course)
- Saturday, June 4, 9:00 a.m. – 3:30 p.m.
- Saturday, June 25, 9:00 a.m. – 3:30 p.m.

Cost is $40 per person and class size is limited. Pre-registration is required. For more information or to register for a class, please contact Frances Allis at (607) 215-0242.

To view a full class schedule for 2016, please visit our website at www.valicentiins.com and click on the Defensive Driving Classes link on our home page.



Frances Allis
Licensed Agent

Suzanne M. Valicenti
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- Disability Insurance
- Customized Benefit Insurance

Tips

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relating to property you own for three to seven years after the year in which you dispose of the property. Three years is a time frame that allows you to file amended returns or, if questions arise on your tax returns, and seven years is a time frame that allows filing a claim for adjustment in a case of a bad debt deduction or a loss from worthless securities.

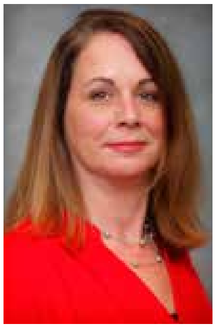
Paul E. Hornbuckle, CPA
Vice President of Tax and Business Services

Convenience Stores and Federal Tax

The IRS has presented a unique way for taxpayers to pay their Federal tax bill in cash. The program was designed for individual taxpayers who lack checking accounts or credit cards. Taxpayers can pay up to $1,000 a day at over 7,000 participating stores for a $3.99 fee. Many of the stores are open 24 hours a day, seven days a week. Go to http://paynearme.com to find a list of the participating stores. The process takes five to seven business days to process your payment. As a result, a little planning ahead will be needed if you are trying to make a timely due date payment. There are four steps involved in going to an official payment website. The IRS will verify your information and PayNearMe will send you an email with your payment code and instructions. You can print it out or send it to your smart phone. Next, go to the retail store listed in the PayNearMe email and ask the clerk to scan or enter your payment code. You will be given a receipt after paying with cash. This is confirmation of your payment and should be kept with your tax records. It is comforting to know that there are alternative ways to meet your tax obligations as a taxpayer.

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

Social Security Taxability



It used to be simple, Social Security benefits were tax-free. Then Congress by an overwhelming bipartisan vote decided as a part of a "Save Social Security" plan to tax up to 50% of benefits and this was signed into law by President Reagan in April 1983. The taxation of benefits was a proposal which came from the Greenspan Commission. Later, lawmakers decided to tax up to 85%. This legislation was enacted in1993 as one provision in a massive Omnibus Budget Reconciliation Act (OBRA). The OBRA legislation was deadlocked in the Senate until Vice President Al Gore cast the deciding vote. The good news is that about 70% of all beneficiaries do not pay tax on their Social Security; however, if you are in the 30% that will be taxed, it is not what you want to hear from your tax preparer.

Social Security becomes taxable when you have other substantial income (such as wages, self-employment, interest, dividends and other taxable income that must be reported on your tax return) in addition to your benefits.

No one pays federal income tax on more than 85% of his or her Social Security benefits based on Internal Revenue Service rules. If you:

- **File a federal tax return as an "individual"** and your combined income* is
  - ~ Between $25,000 and $34,000, you may have to pay income tax on up to 50% of your benefits.
  - ~ More than $34,000, up to 85% of your benefits may be taxable.
- **File a joint return** and you and your spouse have a combined income* that is
  - ~ between $32,000 and $44,000, you may have to pay income tax on up to 50% of your benefits
  - ~ More than $44,000, up to 85% of your benefits may be taxable.
- **Married and file a separate tax return,** you probably will pay taxes on your benefits.

  *Note: Your adjusted gross income
  + Nontaxable interest
  + ½ of your Social Security benefits
  = your "combined income"

You can work while you receive Social Security benefits. When you do, it could mean a higher benefit for you in the future. Each year the Social Security Administration (SSA) reviews the records of all working benefit recipients. If your earnings for the prior year are higher than those of one of the years used to compute your benefit, SSA recalculates your amount. The increase is retroactive to January of the year after you earned the money.

You can ask to withhold federal taxes from your Social Security when you apply for benefits. If you are already receiving benefits or if you want to change or stop your withholding, you'll need a Form W-4V from the Internal Revenue Service. When you complete the form, you will need to select the percentage of your monthly benefit amount you want withheld. You can have 7%, 10%, 15% or 25% of your monthly benefit withheld for taxes. These are the only percentages that can be withheld. Flat dollar amounts are not acceptable.

Finally, do not assume that your state will tax the same amount of your benefits as the IRS does. In most states, Social Security is still completely tax-free. Consult us to determine if your state will tax your benefits.

Amy M. Chacho
Tax Administrative Assistant

2016 Tax Savings

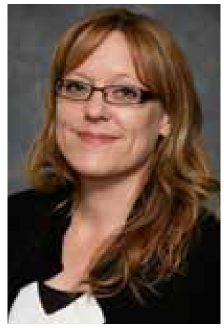
Not many people enjoy paying taxes, but now is the time to start thinking about your taxes for 2016. The good news is that there are ways to reduce your tax liability through tax deferral or deductions and credits. The key is to be proactive and to have good record keeping. The following are a few examples of possible tax savings.

Retirement contributions are a great way to defer income tax. If your employer has a retirement plan such as a 401(k) plan, contributing the maximum amount of $18,000 or $24,000 (over 50) for 2016 may save you thousands on your return. Assuming your effective tax rate is 25%, the tax savings could be $4,500 to $6,000 (over 50). If your employer does not offer a retirement plan, consider an individual retirement account (IRA). You can contribute up to $5,500 ($6,500 over 50) to an IRA. This may or may not be tax deductible depending on the type of IRA and any income limitations. By contributing to a retirement plan, you may also be eligible for the Retirement Savings Contribution Credit. This credit could be as much as 50% of your retirement contributions up to $2,000 ($4,000 if married filing jointly).

Employees may be able to deduct their unreimbursed work related expenses as an itemized deduction subject to the 2% of the adjusted gross income (AGI) limitation and expenses have to be ordinary and necessary. Some examples of deductible expenses are dues to a professional organization, business liability or malpractice insurance, union dues, tools, safety shoes/glasses, uniforms, an in-home office and job search fees. Other expenses such as a job related vehicle, travel, transportation, meal or entertainment expenses are also deductible but require additional records to substantiate the deduction. For example, if you drove your vehicle 10,000 miles in 2016, that would calculate to a $5,400 deduction (10,000 miles x $0.54/mile-2016 standard mileage rate). If you cannot itemize, the deduction is lost and there is no tax savings. The employee may encourage the employer to set up an accountable plan to reimburse certain employee business expenses. The employer could pay a reduced wage plus reimburse expenses. As long as the reduced wage is the same as the reimbursed expense, the employee does not lose any money. The tax benefit is that unreimbursed expens-

*See **Tax Savings** on Page 4*

It's Time For Mid-Year Tax Planning



As spring comes to a close, next year's tax filing deadline is probably one of the last things on your mind. Even though the 2016 tax season is still several months away, now is a good time to go over your financials and fine tune your tax and wealth planning strategies.

A critical component of wealth management is the management of taxes on investments and income. As federal and state tax codes become ever more complex, investors must be more vigilant in their efforts to minimize their tax burden. We pride ourselves in having the ability to have our tax department work closely with our investment team to insure the best planning possible for our clients.

We encourage you to contact us to start your mid-year review. Topics may include implantation of tax efficient strategies that may reduce your overall tax liability and rebalancing your portfolio to assure appropriate asset allocation that aligns with your goals, time horizons and risk tolerance.

As a reminder, if things change for you during the year such as getting married, having a child, buying a home, changing employers or retirement, etc., you should contact us as these will change your planning for the year.

Melissa B. Dixon
Administrative and Marketing Assistant

Deadlines through 2016

June 15
- Payment of second quarter 2016 federal individual estimated income tax

September 15
- Payment of third quarter 2016 federal individual estimated income tax

September 30
- Establish a SIMPLE IRA/safe harbor 401(k)

October 17
- File 2015 federal individual income tax return subject to automatic extensions

December 30
- Establish a new qualified plan (calendar-year taxpayers)
- Complete annual gifts (charitable or other)
- Take RMDs from traditional IRAs and most qualified plans if you reached age 70½ before 2016; RMDs can be aggregated for similar plans, but personal IRAs cannot be combined with an RMD for your employer plan – each must be calculated and distributed separately

Tax Savings

(Continued from Page 3)

es that were previously partially or fully nondeductible are now fully deductible by the employer and excluded from the employee's income. If the taxpayer's effective tax rate is 25%, the taxpayer could have a potential tax savings of up to $1,350 based on $5,400 of reimbursed expenses not included in income.

For those of you that have to take a required minimum distribution (RMD) from an IRA and don't want to pay the tax, donate the RMD to a qualified charity. The Consolidated Appropriations Act of 2016 made qualified charitable distributions from IRAs permanent. A Qualified Charitable Distribution (QCD) permits annual direct transfers up to $100,000 of tax-deferred IRA savings to a qualified charity. The RMD is satisfied and no taxable income is generated. An RMD that is distributed to the taxpayer and then contributed to the charity does not qualify. There may be more tax savings for a QCD such as not increasing your modified AGI and producing more taxable Social Security and an increase in exposure to Net Investment Income Tax. Your AGI does not increase creating higher AGI limitations that disallows additional medical expenses or certain miscellaneous deductions. Another advantage is avoiding charitable AGI contribution limitations.

Elizabeth A. Zarnoch, EA
Tax and Business Services Manager

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This document was not intended or written to be used and it cannot be used for the purpose of avoiding tax penalties that may be imposed on the taxpayer.