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First Class

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Tax Newsletter

June 2016

Congressional Survey:

In a survey of Congress asking who does their own tax returns, 28 members responded, Sen. Mike Enzi (R-Wyo.) was the only one who does his returns all by himself. Enzi worked as an accountant for an oil drilling company for 12 years before becoming a business executive and then entering public service.

OK I will be fair, The IRS commissioner in a recent speech said that the US tax system is the most complicated in the world. Little wonder congressmen can't do it themselves.

Changes in HSA Contribution Limits and other changes:

2017 Single \$3400 up from \$3350

2017 Married \$ 6750 up from \$6750

Most other figures in the federal income tax are staying the same or are rising slightly. Such as the personal exemption is going up by \$50.

Contribution limits on IRAs and other retirement accounts are staying the same for 2016.

ATRA (the new tax bill) also made several important changes to the treatment of capital gains, and eliminated sunset provisions:

- **Income Thresholds:** individuals in the 10% and 15% tax brackets will pay 0% on eligible dividends and most capital gains.
- **Qualified Dividends:** income received will be taxed at the same rate as long-term capital gains.

- **Tax Rate:** individuals in the 25%, 33%, and 35% federal income tax brackets will pay 15% on capital gains, while taxpayers in the 39.6% bracket will pay 20%.

Unmarried individuals (Single) with income over \$200,000 and Married couples filing jointly with income over \$250,000 will also pay a 3.8% Medicare surcharge tax on investment income; thereby increasing the effective rate on capital gains to 23.8% (20% + 3.8%).

Mileage Deduction Rates 2016

Category	Rate (January to December)
Business Miles	54.05 cents per mile
Charitable Services	14.0 cents per mile
Medical Travel	19.0 cents per mile

Estimates:

There are two kinds of estimates: Lucky and Lousy. But if you need help give me a call and we will try to work it out.

Proposed tax changes by the presidential candidates:

I have looked at the proposed tax changes of the various presidential candidates. Generally, Sanders and Clinton want to lower the estate tax threshold to \$3.5 million, tinker with various changes to increase

taxes on the rich, and create a slew of new credits and incentives to accomplish their social objectives.

Trump has come up with a much simpler plan, he proposes to eliminate estate taxes, and a new schedule of tax brackets for the income tax.

None of the proposals look particularly novel, they are plowing the same ground that has been proposed before, the proposals look like they fall along traditional Republican-Democratic lines. Once it goes through the legislative sausage mill probably only tweaks in the system will result. Don't look for big changes no matter who wins.

We will see what the election will bring.

Renouncing citizenship

I have not had anyone ask recently but it has been in the news from time to time, about wealthy individuals renouncing citizenship. Current cost is \$2,350.

Then there is also an exit tax. For wealthy individuals handing in your passport for good, the IRS may treat you as having sold all of your assets and then taxing the sale. Effectively 401Ks, IRAs and similar accounts would be taxed at 30% as they are withdrawn from the account, however that 30% does not give you a credit against any foreign tax that may be due on withdrawals. Think double tax on that.

As a foreigner you are also subject to a different estate tax rules.

A US citizen pays estate tax on assets above \$5.45 million, a non-US citizen pays estate tax on assets above \$60,000, if the assets are located in the US.

Surrendering your citizenship to avoid tax really only works if both you and your money are moved offshore. There may be a heavy tax penalty to do that. Then there is the issue of foreign taxation, other countries have tax systems too.

Contemplating such a move as surrendering your citizenship necessitates very careful planning, and really is only the province of the super wealthy.

US citizens are subject to tax on their worldwide income, and expats who have children who may have never been to the US would be US citizens subject to US tax on their worldwide income and all the tax and filing requirements the US imposes.

For those of you who haven't heard this one:

Two blondes walked into the tanning parlor, the receptionist looked up at them and asked "are you two sisters?"

"No" they replied, "we're not even Catholic."

The frog called up the psychic hotline. The psychic said "you are about to meet a beautiful young girl who will want to know everything about you". The frog got all excited and asked "will I meet her at a party or something?" The psychic replied "no, next semester in her biology class."

Property tax refunds:

I have reviewed the tax returns I completed and checked them for Minnesota property tax refunds. If you are eligible to receive one you should have heard from me through the mail. If you did not hear from me about a property tax refund you are probably either not eligible or your refund is zero. If you have questions give me a call.

Happy Birthday to anyone who didn't get a birthday card from me (sometimes I miss someone)

Phone calls and emails from the IRS demanding money are scams. The IRS will first contact you by US mail. If you receive a notice please contact me first.

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