

First Class

John Murray CPA

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Back-door Roth IRA conversions

The U.S. Congress created this particular loophole by lifting income restrictions from conversions from a traditional Individual Retirement Account (IRA) to a Roth IRA, but not listing these restrictions from the contributions to the accounts.

People whose incomes are too high to put after-tax money directly into a Roth, where the growth is tax-free, can instead fund a traditional IRA with a nondeductible contribution and shortly thereafter convert the IRA to a Roth.

Taxes are typically due in a Roth conversion, but this technique will not trigger much, if any, tax bill if the contributor does not have other money in an IRA. President Obama's 2016 budget proposal suggests that future Roth conversions be limited to pre-tax money only, effectively killing most back-door Roths.

Job hunting expenses are often deductible:

1. You Must Look for Work in the Same Field.

Your job hunting expenses are tax deductible only if they are in pursuit of employment in the same field that you now or last worked in. If you're currently in construction, but are looking for another position in construction, your job search related expenses may be tax deductible. However, if you are looking for a career switch and you're targeting welder positions, any expenses related to your job hunting will not be tax deductible.

2. You Must Already Be Employed

The job search deduction is not available to those who have never worked before. Graduating students searching for their first jobs cannot deduct their job hunting expenses, but once you start working you may be able to deduct job search costs when seeking employment in the same field.

3. Nearly All Job Search Expenses May Be Tax Deductible

Just about every expense directly related to your job search is tax deductible. Such expenses could include payments to job placement agencies, costs to print resumes, costs to mail those resumes, and even in-town or out-of-town trips to your interviews. Make sure you save your receipts!

4. The Job Search Expense Deduction is a Miscellaneous Itemized Deduction

You have to itemize your deductions to benefit from the job search expense deduction and this deduction is beneficial to the extent that your miscellaneous itemized deductions exceed 2% of your Adjusted Gross Income (AGI).

Even If You Fail, You Succeed.

You don't actually have to land a new job to be able to deduct job search expenses. Merely *trying* to find a job in your current field may allow you to deduct all of your job search expenses, no matter the ultimate outcome.

Home office deduction:

If you meet the requirements for a home office, exclusive use, and a requirement of your job you are able to use a simplified deduction. Currently this is five dollars per square foot for every square foot of office space in your home.

Changes in Partnership and corporation filing dates: Now March 15th instead of April 15th effective for year 2016 extensions can still be made until Sept 15th. C Corporations for 2016 and thereafter will be due April 15th.

Year-end tax planning:

1. Sell the losers. If you are sitting on some losses in your portfolio you can offset other capital gains and up to \$3,000 of other income with capital losses.
2. Gift appreciated stock. If you are charitably inclined giving appreciated stock allows a full deduction for the full value, and you do not recognize the gain.
3. Track your expenses. Business deductions, mileage, medical or whatever go through the bills and keep the receipts. Don't wait until April (or October) to organize your deductions.
4. Pay all deductible expenses by year end.

What does tax planning really consist of?

Don't be confused by complicated explanations of what tax planning really is, all the schemes simple or complex fall into one of the following categories:

Avoiding income. Signing up for employee benefits that are nontaxable, or making gifts to your kids or grandkids of income earning assets, or putting them on the payroll would be examples. Taxable income is transferred somewhere else.

Deferring income. Pension plans and IRAs are a common example or not collecting your rental income until the following year. Income is still taxed but at a later date.

Making taxable expenses into nontaxable expenses, or deductible expenses. Writing off home office business expenses, or travel would be examples here. A personal expense is made to qualify as a tax deductible item.

There are combinations that fall into multiple categories but generally the above are the three strategies to avoid taxes. My general word of warning is **always look at the economics and do the smart economic thing.** Spending money just because it is deductible is not a good strategy.

Avoiding taxes is great but as Warren Buffett says rule number one is: **don't lose money,** and rule number two is: **remember rule number one.**

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.

Have a Merry Christmas

John Murray CPA

651-631-1717

Email: MurrayCPA@juno.com

Fax 651-636-5467

New Website:

JohnMurrayCPA.com