

November 8<sup>th</sup>, 2016

# Not Your Typical Tax Update



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# Ohio Joint Filing Credit

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- Tom has W-2 income of \$600k
- Tom has 1099 consulting income of \$40k
- Sally previously worked, but is now a stay at home parent.
- Sally has a rollover traditional IRA with \$50k
- Sally's only current source of income is interest, dividends and capital gains from her brokerage account
- With some simple planning – these clients can get PAID to convert Sally's traditional IRA into a Roth IRA!

# Qualifying income

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- Credit is limited to a maximum of \$650
- Each spouse must have at least \$500 of Qualifying Ohio income
- What is Qualifying Ohio income?
  - Includes
    - Wages
    - Schedule C/business income
    - IRA income
  - Does not include
    - Social security benefits
    - Interest, dividends, capital gains
    - Royalties
    - Rents
    - State and local refunds

# Generate \$500

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- Convert \$500 of Sally's traditional IRA to Roth IRA
- Consider the impact of any non-deductible contributions
- Could also generate wage or 1099 income for spouse via Tom's schedule C for work she assists him with

# Tax summary

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	Before \$500 ROTH conversion for Sally (a)	After \$500 ROTH conversion for Sally (b)	Net Savings (b - a)
Federal Tax (increase)	\$ 203,047	\$ 203,245	\$ 198
Ohio Tax (decrease)	<u>27,931</u>	<u>27,306</u>	<u>(625)</u>
Total	\$ 230,978	\$ 230,551	\$ (427)

**Ohio**

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**Business Income  
Deduction**

- For tax years 2015 and forward, business income from sole proprietorships and pass-through entities included on a taxpayer's individual income tax return will be taxed separately from nonbusiness income.
- i. 2016 tax year filing - This business income will be reduced by the 100% Business Income Deduction (subject to a \$250,000 max. deduction) and the remaining taxable business income will be taxed at 3%.
- ii. 2015 tax year filing - This business income will be reduced by a new 75% Business Income Deduction (subject to a \$187,500 max. deduction) and the remaining taxable business income will be taxed at 3%.



- Business income could include the following...
  - Distributive or proportionate shares of income from a pass-through entity (including a partnership, S Corporation, or LLC)
  - Income from a sole proprietorship
  - Income from farming
  - Compensation or guaranteed payments made by a pass-through entity to a 20% investor under ORC 5733.40(A)(7)
  - Does NOT include C-Corporation income or wages

- In our initial case study, Tom had consulting income of \$40k that would be reported on schedule C.
  - In 2016, the entire \$40k would be a tax deduction on their Ohio return
  - In 2015 and 2014, 75% of the \$40k would be a tax deduction on their Ohio return
  - In 2013, 50% of the \$40k would be a tax deduction on their Ohio return

# Consider wages

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- Sarah owns 50% of a S-Corporation
- She is paid a wage of \$200k
- She also receives a K-1 with \$100k of income
  - The flow-through income on her K-1 would qualify for the deduction
  - Since she owns 20% or more of the entity, she can also include her wages
  - Thus, her total Ohio Business Income would be \$300k

# Tax savings

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- 2015 Tax year

	Before Ohio Business Deduction (a)	Ohio Business Deduction (b)	Net Savings (b - a)
Ohio Tax Liability	\$ 12,479	\$ 3,002	\$ (9,477)

# Often missed



- There are still many taxpayers who are not taking full advantage of this deduction
- We have taken over tax clients where the former CPA was not taking the deduction or maybe wasn't adding back qualifying wages
- Self-preparers rarely take the deduction as it doesn't automatically flow in Turbo Tax
- Be sure to review the Ohio return for your clients to make sure they are taking advantage of this great deduction!
- Amended return(s)!

# Backdoor Roth IRA



- Rule change in 2010 permitting Roth IRA conversions regardless of income (previously not allowed with AGI of \$100,000 or higher).
- Make non-deductible contribution
- Then convert to Roth with no tax
- Must consider all pre-tax IRA accounts when making conversion
- Planning opportunity – Roll IRA funds into a 401(k)

# How long to wait?

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- One day?
- One month?
- One year?
- No specific guidance issued by IRS on this topic
- Step Transaction Doctrine

## How To Do A Backdoor Roth IRA Contribution Safely

- Verify there are no other pre-tax IRAs
- If there are, roll over existing pre-tax IRAs to a 401(k) (if available) to avoid the IRA aggregation rule
- Contribute to non-deductible IRA
- Invest funds in the non-deductible IRA
- Keep invested for 1 year (or if you're more aggressive follow the one-statement rule)
- Convert to Roth IRA
- Repeat steps 2-5 annually as desired
- Do not at any point along the way note that you are doing a “backdoor Roth contribution”!

Source: [www.kitces.com](http://www.kitces.com)



# Reporting issues



- Review tax returns (especially self-prepared returns)

<b>Part II 2015 Conversions From Traditional, SEP, or SIMPLE IRAs to Roth IRAs</b>		
Complete this part if you converted part or all of your traditional, SEP, and SIMPLE IRAs to a Roth IRA in 2015 (excluding any portion you recharacterized).		
16	If you completed Part I, enter the amount from line 8. Otherwise, enter the net amount you converted from traditional, SEP, and SIMPLE IRAs to Roth IRAs in 2015. <b>Do not</b> include amounts you later recharacterized back to traditional, SEP, or SIMPLE IRAs in 2015 or 2016 (see instructions)	5,500.
17	If you completed Part I, enter the amount from line 11. Otherwise, enter your basis in the amount on line 16 (see instructions)	5,500.
18	<b>Taxable amount.</b> Subtract line 17 from line 16. If more than zero, also include this amount on Form 1040, line 15b; Form 1040A, line 11b; or Form 1040NR, line 16b	0.

14	Other gains or (losses). Attach Form 4797	14	
15a	IRA distributions	15a	5,500.
		b	Taxable amount
15b		15b	0.
16a	Pensions and annuities	16a	
		b	Taxable amount
16b		16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	0.

14	Other gains or (losses). Attach Form 4797	14	
15a	IRA distributions	15a	5,500.
		b	Taxable amount
15b		15b	5,500.
16a	Pensions and annuities	16a	
		b	Taxable amount
16b		16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	0.
18	Farm income or (loss). Attach Schedule F	18	

# Roth planning



- Low income/loss years

15a	IRA distributions .....	15a		b Taxable amount .....	15b	297,445.
16a	Pensions and annuities .....	16a		b Taxable amount .....	16b	3.
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E .....				17	-298,814.
18	Farm income or (loss). Attach Schedule F .....				18	
19	Unemployment compensation .....				19	

- Convert extra....you can always reverse (partial or full) in following year until October 15<sup>th</sup> filing deadline
- Consider multiple buckets for different assets

# Tax diversification

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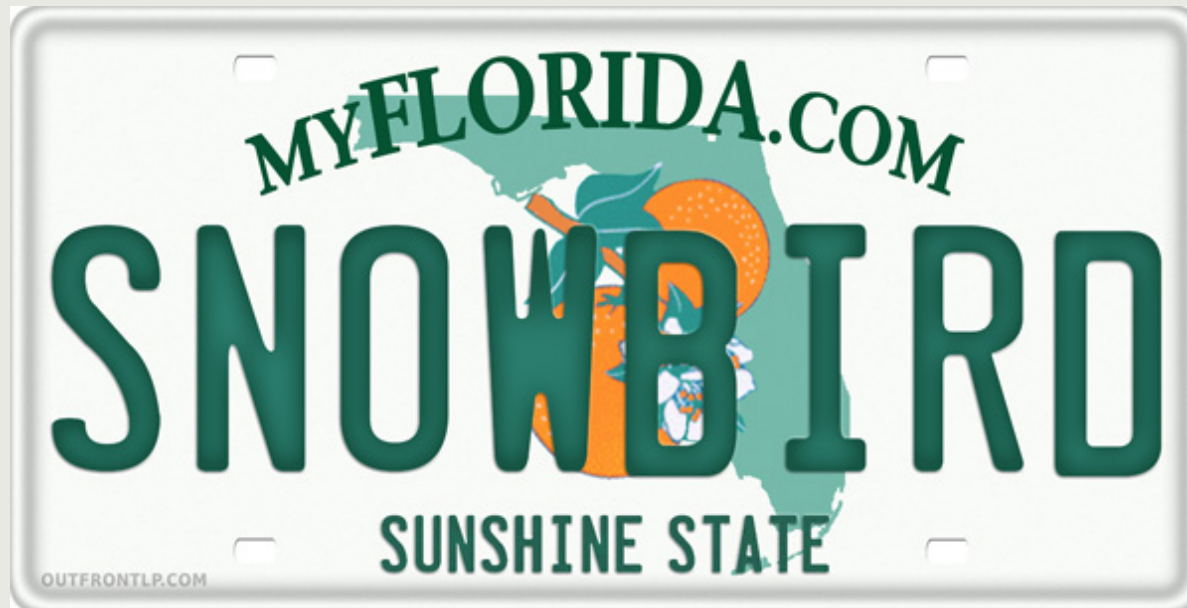
- Prudent to have buckets of pre and post tax retirement funds
- Many taxpayers end up with lower tax rates in retirement
- Can often receive IRA distributions and pay little tax

# Ohio non-residency

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# Non-residency

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- Bright-line
  - The statute set forth two factors that would create an irrebuttable presumption of non-residency for Ohio state income tax purposes:
    - Have fewer than 212 (previously 182) contact periods in state
    - Have an abode outside the state
- Timely file affidavit verifying these facts (Due May 31<sup>st</sup>)
- Test does not apply for part-year resident year

# Affidavit

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## Affidavit of Non-Ohio Residency/Domicile for Taxable Year 2015

This form is for use only by individuals who are claiming to be full-year nonresidents for Ohio income tax purposes.

Due date: May 31, 2016. See Ohio Revised Code section 5747.24.

Who must file: Please see instructions.

Filing this affidavit does not exempt you from timely filing your Ohio income tax return for 2015 and paying any tax due.

First name	M.I.	Last name	Social Security no.
<u>MICHAEL</u>		<u>JONES</u>	<u>123-45-6789</u>
Spouse's first name (only if joint affidavit)	M.I.	Last name	Spouse's Social Security no. (only if joint affidavit)
Current mailing address	County		
<u>123 SUNSET BEACH DRIVE</u>			
City, state, ZIP code			
<u>MIAMI, FL 33110-0</u>			

Under penalties of perjury, I declare all of the following to be true:

1. I was not domiciled in Ohio at any time during taxable year 2015. Name of city (or cities), state(s) (if within the U.S.) and country (if not within the U.S.) where I was domiciled.  
MIAMI, FLORIDA
2. I had at least one abode (place where I lived) outside of Ohio for the entire taxable year. Name of city (or cities), state(s) (if within the U.S.) and country (if not within the U.S.) where I was domiciled.  
MIAMI, FLORIDA
3. I had no more than 212 contact periods\* in Ohio during the taxable year.
4. I  shall  shall not be filing a year 2015 Ohio individual income tax return.

Under penalties of perjury, I declare that to the best of my knowledge and belief the statements on this affidavit are true, correct and complete.

Signature

Date

Spouse's signature (only if joint affidavit)

Date

\* Ohio Revised Code section 5747.24(A)(1) states that an individual "has one contact period in this state" if the individual is away overnight from his/her abode located outside this state and, while away overnight from that abode, spends at least some portion, however minimal, of each of two consecutive days in this state.

# Cunningham v. Testa

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- CAUTION: Bright line gets blurry!
- Kent Cunningham, the taxpayer, owned homes in both Ohio and Tennessee for the entirety of the 2008 tax year
- Cunningham undisputedly had fewer than 182 contact periods with the state of Ohio in 2008
- He also timely filed the non-resident affidavit for Ohio

# What went wrong?

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- Making a false statement
- If found to have made a false statement on the affidavit, the presumption of non-Ohio domicile is not only removed, but is replaced with the rebuttable presumption that the taxpayer is actually domiciled in Ohio.
- In 2008, Cunningham also claimed a homestead property tax exemption. By claiming the homestead exemption, he asserted that his Ohio home was his principal place of residence and that he was domiciled in Ohio.



- The BTA reversed the initial decision finding instead that the taxpayer did satisfy the bright-line test since he met the criteria
- The point of the bright-line test was to avoid the common law tests
- Ohio Rule 5703-7-16

- Examples of Common Law Tests: (Ohio Rule 5703-7-16) **There are several more...these are the first 7**
- (1) The location of financial institutions in which the individual or the individual's spouse have any accounts, including, but not limited to, checking, savings, certificates of deposit, or individual retirement accounts.
- (2) The location of issuers of credit cards to the individual or the individual's spouse or any other persons making installment loans to the individual or the individual's spouse.
- (3) The location of institutional lenders which have made loans to or loans which are guaranteed by the individual or the individual's spouse.
- (4) The location of investment facilities, brokerage firms, realtors, financial advisors or consultants used by the individual or the individual's spouse.
- (5) The location of either the insurance company that issued or the insurance agent that sold any policy of insurance to the individual or the individual's spouse including, but not limited to, life, health, disability, automobile, or homeowner's insurance.
- (6) The location of law firms, accounting firms, and similar professionals utilized by the individual or the individual's spouse for legal, tax, accounting, financial, or retirement services.
- (7) The location of physicians, dentists, osteopaths, optometrists, or other health care providers, or veterinarians utilized by the individual or the individual's spouse.

- Reversed decision of the BTA
- Statute requires the verification of domicile separate and apart from the verification of contact periods and abode
- The court explained that the Commissioner can determine that a false statement was made when he has “information that furnishes a substantial basis for rejecting the claim of non-Ohio domicile”

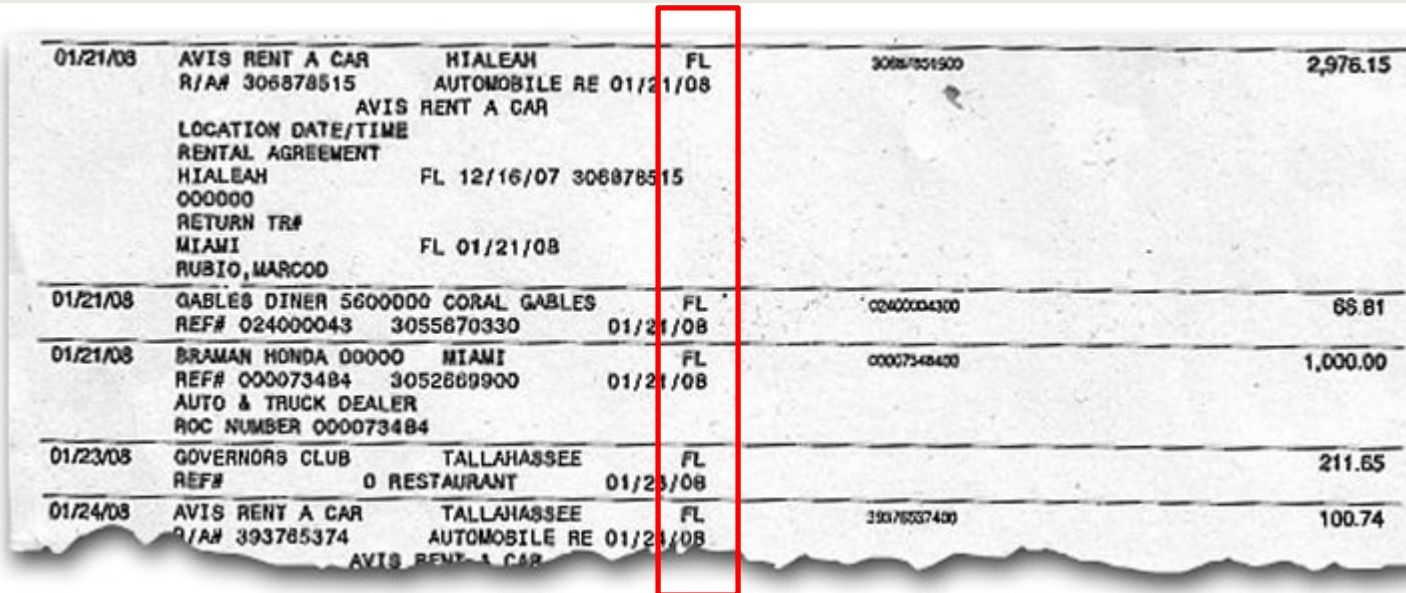
# Implications

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- Taxpayers should now be sure to consider common law factors
- Be sure that the basics are covered (license, voting, plates, real estate reduction, etc)
- Home exemption example
- Taxpayers should seek professional guidance if dollars are significant
- Credit card tip

# Residency tip

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01/21/08	AVIS RENT A CAR R/A# 306878515	HIALEAH AUTOMOBILE RE 01/21/08 AVIS RENT A CAR	FL	30687851500	2,976.15
	LOCATION DATE/TIME RENTAL AGREEMENT HIALEAH FL 12/16/07 306878515 000000 RETURN TR# MIAMI FL 01/21/08 RUBIO, MARCO D				
01/21/08	GABLES DINER 5600000 REF# 024000043	CORAL GABLES 3055670330	FL 01/21/08	02400004300	66.81
01/21/08	BRAMAN HONDA 00000 REF# 000073484	MIAMI 3052869900	FL 01/21/08	00007348400	1,000.00
	AUTO & TRUCK DEALER ROC NUMBER 000073484				
01/23/08	GOVERNORS CLUB REF#	TALLAHASSEE O RESTAURANT	FL 01/23/08		211.65
01/24/08	AVIS RENT A CAR R/A# 393785374	TALLAHASSEE AUTOMOBILE RE 01/24/08 AVIS RENT A CAR	FL	39378537400	100.74

# Days out of city

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- How many people live in a non-taxing city?
- How many people work in a city with a higher tax rate than their resident city?
- How many people ever travel for work or work from home?

# Case study

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- John makes \$400k per year
- Travels or works from home 34 days during the year
- Works in city with tax rate of 2.5%
- Lives in non-taxing city

- <https://thefinder.tax.ohio.gov/streamlinesales-taxweb/default-taxdistrictsummary.aspx>



The Finder > Tax District Summary



## Tax District Summary

This site provides tax information for all addresses in the State of Ohio. Choose one of the following options:

### Lookup Tax Rate

- Address
- Zip Code (5-digit or 9-digit)
- Latitude/Longitude

**Upload Databases** - Registered and logged in users may get the appropriate tax rates applied through this secure application.

- Registration
- Upload/Return File Instructions



# Finder results

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The Finder > Tax District Summary > Lookup By Address > Results

## Lookup By Address

The system has successfully matched the address you entered:

### Input Address [\(Modify\)](#)

**Address:** 7993 Chateau Ln  
**Suite, Apt, Lot:**  
**City:** Westerville  
**State:** Oh  
**Zip Code:** 43082-

### Found Address

**Address:**  
**Suite, Apt, Lot:**  
**City:**  
**State:**  
**Zip Code:**  
**Physical City:**

### Sales and Use Tax

<u>County</u>	<u>State Tax Rate</u>	<u>County Tax Rate</u>
Delaware without transit:	5.75%	1.25%

### School District Income Tax

WESTERVILLE CSD (2514): 0.00%

### Municipal Income Tax

N/A (N/A): N/A%

# Finder results

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The Finder > Tax District Summary > Lookup By Address > Results

## Lookup By Address

The system has successfully matched the address you entered:

### Input Address [\(Modify\)](#)

**Address:** 2 Miranova Pl, Ste 600  
**Suite, Apt, Lot:**  
**City:** Columbus  
**State:** Oh  
**Zip Code:** 43215-

### Found Address

**Address:**  
**Suite, Apt, Lot:**  
**City:**  
**State:**  
**Zip Code:**  
**Physical City:**

### Sales and Use Tax

<u>County</u>	<u>State Tax Rate</u>	<u>County Tax Rate</u>
Franklin with transit:	5.75%	1.25%

### School District Income Tax

COLUMBUS CSD (2503): 0.00%

### Municipal Income Tax

COLUMBUS (18000): 2.50%

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# Schedule

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## Tax Year 2015 Nonresident Days Worked Out Schedule

Note: The standard days out calculation starts with an average of 260 days and then subtracts vacations, holiday and sick time.

260 : Standard days  
(10): Subtract holidays  
(20): Subtract vacation  
230 Total workdays for year

If you have any questions regarding this schedule, please contact the Third Party Designee, William T. Vasil at 614-545-2049.

### Business Travel

Date	Location
1/26/2015	Chicago, IL
2/13/2015	Grand Rapids, MI
2/27/2015	Stow, OH
3/2/2015	Galena, OH
3/3/2015	Galena, OH
3/10/2015	Jacksonville, FL
3/19/2015	Newaark, NJ
5/14/2015	West Palm Beach, FL
5/15/2015	West Palm Beach, FL
5/18/2015	Galena, OH
5/19/2015	Mt. Orab, OH
8/12/2015	Drummond Island, MI
8/13/2015	Drummond Island, MI
8/14/2015	Drummond Island, MI
8/17/2015	Galena, OH
8/19/2015	Salt Lake City, UT
10/5/2015	Salt Lake City, UT
10/6/2015	Salt Lake City, UT
10/12/2015	Vienna, Austria
10/13/2015	Vienna, Austria
10/14/2015	Slupsk, Poland
10/15/2015	Slupsk, Poland
10/16/2015	Slupsk, Poland
10/22/2015	Skiatook, OK
10/23/2015	Skiatook, OK
10/24/2015	Galena, OH
10/25/2015	Galena, OH
10/28/2015	Kiawah Island, SC
10/29/2015	Kiawah Island, SC
10/30/2015	Galena, OH
12/1/2015	Istanbul, Turkey
12/2/2015	Istanbul, Turkey
12/3/2015	Istanbul, Turkey
12/4/2015	Istanbul, Turkey

34

# Days out calc



- If you work 34 days outside of the 2.5% taxing district and received a \$400,000 salary, you would only be required to pay city tax on \$340,844 of those earnings. Your total city tax refund would be \$1,479.

If you were a nonresident employee who worked part of the year outside the city for which your employer withheld city tax complete Lines 18 through 28. <u>Attach a list of the dates and locations worked out</u> See instructions.		
18. Enter the total number of vacation days taken during the entire year .....	18	20
19. Enter the total number of holidays for the entire year .....	19	10
20. Enter the total number of sick leave days taken during the entire year .....	20	
21. Add Lines 18 through 20 .....	21	30
22. Subtract line 21 from 260 (total workdays in a year) (see instructions) .....	22	230
23. Enter your total wages for this job for the year .....	23	400,000.
24. Enter the amount of 2108 expenses related to this income. <u>Attach a copy</u> of the 2108 & Fed Sch A .....	24	
25. Subtract Line 24 from 23. If less than zero, enter zero .....	25	400,000.
26. Divide Line 25 by the number of days shown on Line 22 .....	26	1,739.
27. Enter the number of days worked in the city (Line 22 less total days worked out) .....	27	196
28. Multiply Line 26 by Line 27. List this figure in Part A of Page 1 along with any other taxable wages you or your spouse earned. <u>Complete Certification by Employer below</u> .....	28	340,844.

Part B		TAX CALCULATION A Declaration of Estimated City Tax (form IR-21) is REQUIRED for all individuals whose tax is not fully withheld.						
Column A CITY	C O D E	Column B INCOME FROM WAGES, SALARIES, COMMISSIONS, ETC. (SEE NET WAGES)	Column C INCOME FROM NET PROFITS, RENTS AND OTHER TAXABLE INCOME	Column D TOTAL NET TAXABLE INCOME	TAX RATE	Column E TAX DUE	Column F LESS TAX WITHHELD (W-2) PAID BY A PARTNERSHIP OR PAID DIRECTLY TO CITY WHERE INCOME WAS EARNED	Column G NET TAX DUE
COLUMBUS	01	340,844.		340,844.	2.5%	8,521.	10,000.	-1,479.
GROVEPORT	08				2.0%			

# Partial savings

- Assume Sally receives a salary of \$5,000,000. She works in Columbus (2.5% tax rate) but lives in New Albany (2.0% tax rate) and works 20% of the time outside of Columbus
- She would file a Columbus return reporting the days worked outside of Columbus and receive a refund of \$25,000
- She would then file a New Albany return reporting the salary not taxable to Columbus (\$1,000,000), thus paying tax of \$20,000
- Her net savings would be \$5,000

- Must have employer certify
- Keep detailed records
- Planning opportunity – work more days from home?
- Forms vary by city
- Amend prior year(s)

- Subject that often comes up with clients/advisors
- Overview
- How to get out of AMT
- Items to consider if in AMT
- Planning considerations



<b>Tax and Credits</b>	38 Amount from line 37 (adjusted gross income)	38	476,440.
Standard Deduction for - • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.	39a Check <input type="checkbox"/> You were born before January 2, 1951, <input type="checkbox"/> Blind, <input type="checkbox"/> Spouse was born before January 2, 1951, <input type="checkbox"/> Blind. Total boxes checked <input type="checkbox"/> 39a		
	b If your spouse itemizes on a separate return or you were a dual-status alien, check here <input type="checkbox"/> 39b		
	40 Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	64,496.
	41 Subtract line 40 from line 38	41	411,944.
	42 Exemptions. If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see inst.	42	0.
	43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	411,944.
	44 Tax. Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44	97,970.
	45 Alternative minimum tax. Attach Form 6251	45	10,976.
	46 Excess advance premium tax credit repayment. Attach Form 8962	46	
	47 Add lines 44, 45, and 46	47	108,946.

# Form 6251 - AMT

## Schedule A

<b>Medical and Dental Expenses</b>	Caution: Do not include expenses reimbursed or paid by others.		
1	Medical and dental expenses (see instructions)	1	
2	Enter amount from Form 1040, line 38	2	
3	Multiply line 2 by 10% (.10). But if either you or your spouse was born before January 2, 1951, multiply line 2 by 7.5% (.075) instead	3	
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4	
<b>Taxes You Paid</b>	5 State and local (check only one box): a <input checked="" type="checkbox"/> Income taxes, or <input type="checkbox"/> General sales taxes SEE STATEMENT 7	5	29,539.
6	Real estate taxes (see instructions)	6	9,711.
7	Personal property taxes	7	
8	Other taxes. List type and amount	8	
9	Add lines 5 through 8	9	39,250.
<b>Interest You Paid</b>	10 Home mortgage interest and points reported to you on Form 1098	10	5,646.
11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address	11	
12	Points not reported to you on Form 1098. See instructions for special rules	12	
13	Mortgage insurance premiums (see instructions)	13	
14	Investment interest. Attach Form 4952 if required. (See instructions.) STMT 8	14	392.
15	Add lines 10 through 14	15	6,038.
<b>Gifts to Charity</b>	16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions	16	17,225.
17	Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	17	4,992.
18	Carryover from prior year	18	
19	Add lines 16 through 18	19	22,217.
<b>Casualty and Theft Losses</b>	20 Casualty or theft loss(es). Attach Form 4684. (See instructions.)	20	
<b>Job Expenses and Certain Miscellaneous Deductions</b>	21 Unreimbursed employee expenses - job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.)	21	
22	Tax preparation fees	22	1,050.
23	Other expenses - investment, safe deposit box, etc. List type and amount INVESTMENT FEE FROM K-1 - COMPASS 10,000. DIVERSIFIED HOLDINGS 466.	23	10,466.
24	Add lines 21 through 23	24	11,516.
25	Enter amount from Form 1040, line 38	25	476,440.
26	Multiply line 25 by 2% (.02)	26	9,529.
27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-	27	1,987.

<b>Part I Alternative Minimum Taxable Income</b>			
1	If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41, and go to line 2. Otherwise, enter the amount from Form 1040, line 38, and go to line 7. (If less than zero, enter as a negative amount.)	1	411,944.
2	Medical and dental. If you or your spouse was 65 or older, enter the smaller of Schedule A (Form 1040), line 4, or 2.5% (.025) of Form 1040, line 38. If zero or less, enter -0-	2	
3	Taxes from Schedule A (Form 1040), line 9	3	39,250.
4	Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet in the instructions for this line	4	
5	Miscellaneous deductions from Schedule A (Form 1040), line 27	5	1,987.
6	If Form 1040, line 38, is \$154,950 or less, enter -0-. Otherwise, see instructions	6	-4,996.
7	Tax refund from Form 1040, line 10 or line 21	7	
8	Investment interest expense (difference between regular tax and AMT)	8	
9	Depletion (difference between regular tax and AMT)	9	
10	Net operating loss deduction from Form 1040, line 21. Enter as a negative amount	10	
11	Alternative tax net operating loss deduction	11	
12	Interest from specified private activity bonds exempt from the regular tax SEE STATEMENT 17	12	44.
13	Qualified small business stock, see instructions	13	
14	Exercise of incentive stock options (excess of AMT income over regular tax income)	14	
15	Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code A)	15	
16	Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)	16	
17	Disposition of property (difference between AMT and regular tax gain or loss)	17	
18	Depreciation on assets placed in service after 1986 (difference between regular tax and AMT)	18	
19	Passive activities (difference between AMT and regular tax income or loss)	19	
20	Loss limitations (difference between AMT and regular tax income or loss)	20	
21	Circulation costs (difference between regular tax and AMT)	21	
22	Long-term contracts (difference between AMT and regular tax income)	22	
23	Mining costs (difference between regular tax and AMT)	23	
24	Research and experimental costs (difference between regular tax and AMT)	24	
25	Income from certain installment sales before January 1, 1998	25	
26	Intangible drilling costs preference	26	
27	Other adjustments, including income-based related adjustments	27	
28	Alternative minimum taxable income. Combine lines 1 through 27. If married filing separately and line 28 is more than \$246,250, see instructions.	28	448,229.
<b>Part II Alternative Minimum Tax (AMT)</b>			
29	Exemption. (If you were under age 24 at the end of 2015, see instructions.) If your filing status is... AND line 28 is not over... THEN enter on line 29... Single or head of household \$119,200 \$39,600 Married filing jointly or qualifying widow(er) 158,900 83,000 Married filing separately 79,450 41,700 STMT 16	29	11,068.
30	Subtract line 29 from line 28. If more than zero, go to line 31. If zero or less, enter -0- here and on lines 31, 33, and 35, and go to line 34	30	437,161.
31	If you are filing Form 2555 or 2555-EZ, see instructions for the amount to enter. • If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9b; or you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as refunded for the AMT, if necessary), complete Part III on page 2 and enter the amount from line 64 here. • All others: If line 30 is \$185,400 or less (\$92,700 or less if married filing separately), multiply line 30 by 26% (.26). Otherwise, multiply line 30 by 28% (.28) and subtract \$3,708 (\$1,854 if married filing separately) from the result.	31	108,946.
32	Alternative minimum tax foreign tax credit (see instructions)	32	15.
33	Temporary minimum tax. Subtract line 32 from line 31	33	108,931.
34	Add Form 1040, line 44 (minus any tax from Form 4972), and Form 1040, line 46. Subtract from the result any foreign tax credit from Form 1040, line 48. If you used Sch J to figure your tax on Form 1040, line 44, refigure that tax without using Schedule J before completing this line (see instructions)	34	97,955.
35	AMT. Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45	35	10,976.



# Ways to avoid AMT 😊

A

R

M

- Move to state with no income tax
- Rent a home to avoid deducting real estate taxes
- Do not hire a financial advisor or tax preparer
- Don't have kids

# Form 6251 - AMT

<b>Tax and Credits</b>	38	Amount from line 37 (adjusted gross income)	38	476,440.
39a	Check <input type="checkbox"/> You were born before January 2, 1951, <input type="checkbox"/> Blind, <input type="checkbox"/> Spouse was born before January 2, 1951, <input type="checkbox"/> Blind. Total boxes checked <input type="checkbox"/> 39a			
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here <input type="checkbox"/> 39b			
40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	26,069.	
41	Subtract line 40 from line 38	41	450,371.	
42	Exemptions. If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 8d. Otherwise, see inst.	42	0.	
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	450,371.	
44	Tax. Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44	110,650.	
45	Alternative minimum tax. Attach Form 6251	45	0.	
46	Excess advance premium tax credit repayment. Attach Form 8862	46		
47	Add lines 44, 45, and 46	47	110,650.	

## Schedule A

<b>Medical and Dental Expenses</b>	1	Caution: Do not include expenses reimbursed or paid by others.		
1	Medical and dental expenses (see instructions)	1		
2	Enter amount from Form 1040, line 38	2		
3	Multiply line 2 by 10% (.10). But if either you or your spouse was born before January 2, 1951, multiply line 2 by 7.5% (.075) instead	3		
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4		
<b>Taxes You Paid</b>	5	State and local (check only one box): a <input type="checkbox"/> Income taxes, or b <input checked="" type="checkbox"/> General sales taxes	5	2,810.
6	Real estate taxes (see instructions)	6		
7	Personal property taxes	7		
8	Other taxes. List type and amount	8		
9	Add lines 5 through 8	9	2,810.	
<b>Interest You Paid</b>	10	Home mortgage interest and points reported to you on Form 1098	10	5,646.
11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address	11		
12	Points not reported to you on Form 1098. See instructions for special rules	12		
13	Mortgage insurance premiums (see instructions)	13		
14	Investment interest. Attach Form 4952 if required. (See instructions.) STMT 7	14	392.	
15	Add lines 10 through 14	15	6,038.	
<b>Gifts to Charity</b>	16	Gifts by cash or check. If you made any gift of \$250 or more, see instructions	16	17,225.
17	Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	17	4,992.	
18	Carryover from prior year	18		
19	Add lines 16 through 18	19	22,217.	
<b>Casualty and Theft Losses</b>	20	Casualty or theft loss(es). Attach Form 4684. (See instructions.)	20	
<b>Job Expenses and Certain Miscellaneous Deductions</b>	21	Unreimbursed employee expenses - job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.)	21	
22	Tax preparation fees	22		
23	Other expenses - investment, safe deposit box, etc. List type and amount FROM K-1 - COMPASS DIVERSIFIED HOLDINGS 466.	23	466.	
24	Add lines 21 through 23	24	466.	
25	Enter amount from Form 1040, line 38	25	476,440.	
26	Multiply line 25 by 2% (.02)	26	9,529.	
27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-	27	0.	
28	Other. From list in instructions. List type and amount	28		

<b>Part I Alternative Minimum Taxable Income</b>	1	If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41, and go to line 2. Otherwise, enter amount from Form 1040, line 38, and go to line 7. (If less than zero, enter as a negative amount.)	1	450,371.
2	Medical and dental. If you or your spouse was 65 or older, enter the smaller of Schedule A (Form 1040), line 4, or 2.5% (.025) of Form 1040, line 38. If zero or less, enter -0-	2		
3	Taxes from Schedule A (Form 1040), line 9	3	2,810.	
4	Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet in the instructions for this line	4		
5	Miscellaneous deductions from Schedule A (Form 1040), line 27	5		
6	If Form 1040, line 38, is \$154,950 or less, enter -0-. Otherwise, see instructions	6	-4,996.	
7	Tax refund from Form 1040, line 10 or line 21	7		
8	Investment interest expense (difference between regular tax and AMT)	8		
9	Depletion (difference between regular tax and AMT)	9		
10	Net operating loss deduction from Form 1040, line 21. Enter as a positive amount	10		
11	Alternative tax net operating loss deduction	11		
12	Interest from specified private activity bonds exempt from the regular tax	12	44.	
13	Qualified small business stock adjustments	13		
14	Exercise of incentive stock options (excess of AMT income over regular tax income)	14		
15	Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code A)	15		
16	Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)	16		
17	Disposition of property (difference between AMT and regular tax gain or loss)	17		
18	Depreciation on assets placed in service after 1988 (difference between regular tax and AMT)	18		
19	Passive activities (difference between AMT and regular tax income or loss)	19		
20	Loss limitations (difference between AMT and regular tax income or loss)	20		
21	Circulation costs (difference between regular tax and AMT)	21		
22	Long-term contracts (difference between AMT and regular tax income)	22		
23	Mining costs (difference between regular tax and AMT)	23		
24	Research and experimental costs (difference between regular tax and AMT)	24		
25	Income from certain installment sales before January 1, 1998	25		
26	Intangible drilling costs preference	26		
27	Other adjustments, including income-based related adjustments	27		
28	Alternative minimum taxable income. Combine lines 1 through 27. If married filing separately and line 28 is more than \$248,250, see instructions.	28	448,229.	
<b>Part II Alternative Minimum Tax (AMT)</b>	29	Exemption. (If you were under age 24 at the end of 2015, see instructions.) If your filing status is... AND line 28 is not over... THEN enter on line 29... Single or head of household \$119,200 \$13,600 Married filing jointly or qualifying widow(er) 158,900 83,400 Married filing separately 79,450 41,700 STMT 1 If line 28 is over the amount shown above for your filing status, see instructions.	29	11,068.
30	Subtract line 29 from line 28. If more than zero, go to line 31. If zero or less, enter -0- here and on lines 31, 33, and 35, and go to line 34	30	437,161.	
31	• If you are filing Form 2555 or 2555-EZ, see instructions for the amount to enter. • If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9b; or you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as required for the AMT), if necessary, complete Part III on page 2 and enter the amount from line 64 here. • All others: If line 30 is \$185,400 or less (\$92,700 or less if married filing separately), multiply line 30 by 26% (.26). Otherwise, multiply line 30 by 28% (.28) and subtract \$3,708 (\$1,854 if married filing separately) from the result.	31	108,946.	
32	Alternative minimum tax foreign tax credit (see instructions)	32	15.	
33	Tentative minimum tax. Subtract line 32 from line 31	33	108,931.	
34	Add Form 1040, line 44 (minus any tax from Form 4972), and Form 1040, line 46. Subtract from the result any foreign tax credit from Form 1040, line 48. If you used Sch J to figure your tax on Form 1040, line 44, refigure that tax without using Schedule J before completing this line (see instructions)	34	110,635.	
35	AMT. Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45	35	0.	

# AMT, now what?

A R M

- Marginal ordinary income rate?
- Marginal capital gain rate?

# AMT exemption

A R M

- Now permanently patched
- Phase-out zone
- Every \$4 of income reduces AMT exemption by \$1

# AMT exemption

A R M

Increase in AGI	Decrease in Exemption (A)	AMT Tax Rate (B)	Exemption % (C=A*B)	Effective % (B + C)
Income by \$1	by .25c	28%	7%	35%
Income by \$1	by .25c	28%	7%	35%
Income by \$1	by .25c	28%	7%	35%
Income by <u>\$1</u>	by .25c	28%	<u>7%</u>	35%
Total change \$4	\$(1)		28%	

# Capital gain rate

A R M

- Adjusted gross income of \$300k
- Taxpayer realizes \$10k of long-term capital gain
- Marginal capital gain rate?

# Long-term gain

A R M

- 15.0% Capital Gain Tax
- 3.8% Medicare Tax
- 7.0% AMT Exemption Phase-out
- 25.8%

# Accelerate income

A R M

- Accelerate income into current year
- Typically taxpayers want to defer income
- Current rate is 28% (35% in phase-out zone)
- Future rate 39.6% or more?



- Greg's current income is \$525k
- Greg has \$400k of options that he could exercise
- Greg will retire within the next few years
- Disclaimer: Does not consider fluctuations in stock price.

# 50k Increase



- Exercise shares to increase income by \$50k

$$152,766 - 138,316 = 14,450$$

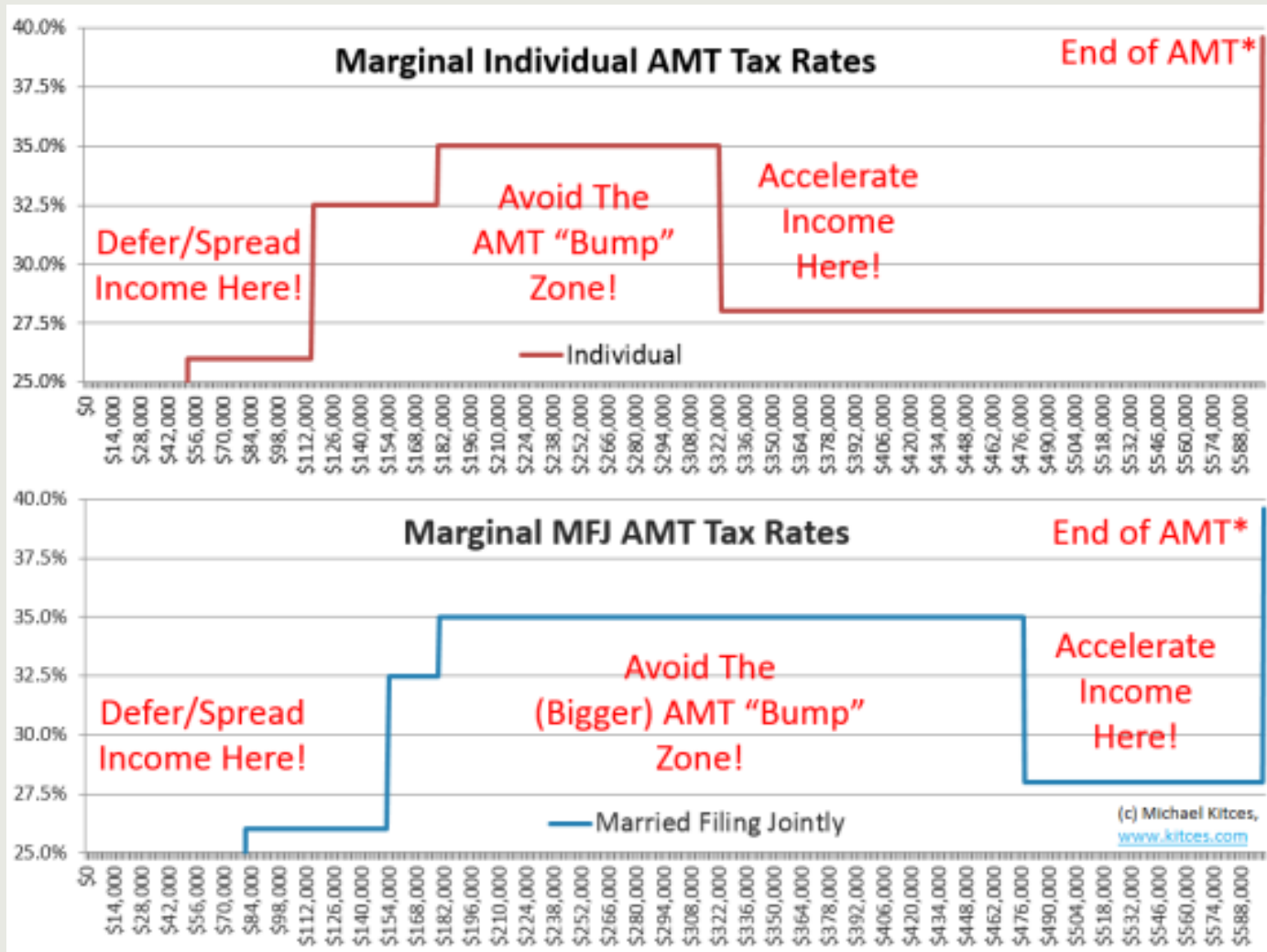
$$14,450 / 50,000 = 28.9\%$$

	Baseline	Exercise \$50k
<b>Income:</b>		
Wages	525,000	575,000
<b>Total Income</b>	<u>525,000</u>	<u>575,000</u>
<b>Total Adjustments</b>	<u>0</u>	<u>0</u>
<b>Adjusted Gross Income</b>	<b>525,000</b>	<b>575,000</b>
<b>Personal Exemptions</b>	<u>0</u>	<u>0</u>
<b>Itemized Deductions:</b>		
Charitable Contributions	21,000	21,000
Taxes	38,700	38,700
Interest Expense	5,600	5,600
Misc & Employee Business Expense	5,500	4,500
3% AGI Floor	-6,453	-7,953
<b>Total Itemized</b>	<b>64,347</b>	<b>61,847</b>
Standard Deduction	<u>12,600</u>	<u>12,600</u>
<b>Total Deductions from AGI</b>	<b>64,347</b>	<b>61,847</b>
<b>Taxable Income</b>	<b>460,653</b>	<b>513,153</b>
<b>Regular Tax:</b>		
Schedule or Table Tax	<u>128,528</u>	<u>149,124</u>
<b>Appropriate Regular Tax</b>	<b>128,528</b>	<b>149,124</b>
Nonrefundable Credits	<u>-15</u>	<u>-15</u>
<b>Net Alternative Minimum Tax</b>	<b>7,328</b>	<b>732</b>
High Income HI, Medicare & Other Tax	<u>2,475</u>	<u>2,925</u>
<b>Total Federal Taxes</b>	<b>138,316</b>	<b>152,766</b>
Withholding & Estimated Tax Payments	<u>-109,090</u>	<u>-109,090</u>
<b>Total Payments</b>	<b>-109,090</b>	<b>-109,090</b>
<b>Net Federal Tax Due</b>	<b>29,226</b>	<b>43,676</b>

- Current Marginal vs Highest Bracket at Retirement

Increase in AGI	\$50K of options in current year	\$50k of options in year of retirement
Marginal Rate	28%	39.6% or more?

# AMT chart



RELATIONSHIPS | built on results

# Big income year

A R M

- Luke is leaving his employer and will have a large income year
- Luke will not be in AMT due to large income
- Income will be reduced in the following year
- State income taxes often under-withheld

FMV x Shares Exercised:		\$42,993.81
Less Total Option Exercise Price:		(\$5,754.24)
Exercise Gain		\$37,239.57
Taxable Compensation:		\$37,239.57
<b>Tax Information</b>		
	<b>Tax %</b>	<b>Taxes Due</b>
FEDWH	25.0000 %	\$9,309.89
OH	3.5000 %	\$1,303.38
18000	2.4900 %	\$930.95
<b>Total Tax Amount:</b>		<b>\$11,544.22</b>
*FMV is calculated according to the Company's Plan		

# State payment

A R M

	2015 Ohio Balance Due Paid in 2016	2015 Ohio Balance Due Paid in 2016
<b>Income:</b>		
Wages	500,000	500,000
Interest & Dividends	10,000	10,000
<b>Total Income</b>	<b>510,000</b>	<b>510,000</b>
<b>Total Adjustments</b>	<b>0</b>	<b>0</b>
<b>Adjusted Gross Income</b>	<b>510,000</b>	<b>510,000</b>
<b>Personal Exemptions</b>	<b>0</b>	<b>0</b>
<b>Itemized Deductions:</b>		
Taxes	15,000	22,888
Interest Expense	12,000	12,000
Misc & Employee Business Expense	1,800	1,800
3% AGI Floor	-6,003	-6,003
<b>Total Itemized</b>	<b>22,797</b>	<b>30,685</b>
Standard Deduction	12,600	12,600
<b>Total Deductions from AGI</b>	<b>22,797</b>	<b>30,685</b>
<b>Taxable Income</b>	<b>487,203</b>	<b>479,315</b>
<b>Regular Tax:</b>		
Schedule or Table Tax	138,848	135,725
<b>Appropriate Regular Tax</b>	<b>138,848</b>	<b>135,725</b>
Net Alternative Minimum Tax	0	7
High Income HI, Medicare & Other Tax	2,550	2,545
<b>Total Federal Taxes</b>	<b>141,398</b>	<b>138,277</b>
Withholding & Estimated Tax Payments	-141,398	-141,398
<b>Total Payments</b>	<b>-141,398</b>	<b>-141,398</b>
<b>Net Federal Tax Due</b>	<b>0</b>	<b>-3,121</b>
Resident State Tax	22,888	22,888
Resident State Estimated & W/H	-15,000	-22,888
<b>Net Resident State Tax Due</b>	<b>7,888</b>	<b>0</b>

↑ by Ohio balance due of \$7,888

Federal Savings of \$3,121 ~39.6%

# Next year



- Income will be down
- Tax deduction would be large
- Recipe for AMT
- May get little or no benefit for taxes

	2015 Ohio Balance Due Paid in 2015	2016	2015 Ohio Balance Due Paid in 2016
<b>Income:</b>			
Wages	250,000		250,000
Interest & Dividends	10,000		10,000
<b>Total Income</b>	<b>260,000</b>		<b>260,000</b>
<b>Total Adjustments</b>	<b>0</b>		<b>0</b>
<b>Adjusted Gross Income</b>	<b>260,000</b>		<b>260,000</b>
<b>Personal Exemptions</b>	<b>8,100</b>		<b>8,100</b>
<b>Itemized Deductions:</b>			
Taxes	10,395		18,283
Interest Expense	12,000		12,000
Misc & Employee Business Expense	6,800		6,800
3% AGI Floor	0		0
<b>Total Itemized</b>	<b>29,195</b>		<b>37,083</b>
Standard Deduction	12,600		12,600
<b>Total Deductions from AGI</b>	<b>37,295</b>		<b>45,183</b>
<b>Taxable Income</b>	<b>222,705</b>		<b>214,817</b>
<b>Regular Tax:</b>			
Schedule or Table Tax	49,343		47,134
<b>Appropriate Regular Tax</b>	<b>49,343</b>		<b>47,134</b>
Net Alternative Minimum Tax	0		1,298
High Income HI, Medicare & Other Tax	106		95
<b>Total Federal Taxes</b>	<b>49,449</b>		<b>48,527</b>
Withholding & Estimated Tax Payments	-49,449		-49,449
<b>Total Payments</b>	<b>-49,449</b>		<b>-49,449</b>
<b>Net Federal Tax Due</b>	<b>0</b>		<b>-922</b>
Resident State Tax	10,395		10,395
Resident State Estimated & W/H	-10,395		-10,395
<b>Net Resident State Tax Due</b>	<b>0</b>		<b>0</b>

↑ by Ohio balance due of \$7,888

Federal Savings of \$922 ~11.7%

# Timing of deductions

A R M

- When making large itemized deduction payments (S&L tax, RE tax, charitable, agent fees, etc) be sure to run a tax projection and consider multiple years



# Pease limitation



- The Pease limitation on itemized deductions is named after former Congressman Donald Pease (D-OH)
  - Reduce the itemized deductions allowed by the lesser of
    - (AGI - threshold) \* 3% or
    - Nonexempt Itemized Deductions \* 80%
- The threshold amount is indexed for inflation, but the 2016 amounts are listed below based on the taxpayer's filing status:
  - Single: \$259,400
  - Head of Household: \$285,350
  - Married Filing Jointly: \$311,300

# Pease limitation

A R M

Adjusted Gross Income	\$6,191,000
Married Filing Joint Threshold	\$311,300
Excess	\$5,879,700
Rate	3%
Pease reduction	\$176,391

# Pease limitation



- Federal savings of ~18.6% due to Pease limitation

	Baseline	300k Charitable
<b>Income:</b>		
Wages	6,000,000	6,000,000
Interest & Dividends	106,000	106,000
Capital Gains & Losses	85,000	85,000
<b>Total Income</b>	<b>6,191,000</b>	<b>6,191,000</b>
<b>Total Adjustments</b>	<b>0</b>	<b>0</b>
<b>Adjusted Gross Income</b>	<b>6,191,000</b>	<b>6,191,000</b>
<b>Personal Exemptions</b>	<b>0</b>	<b>0</b>
<b>Itemized Deductions:</b>		
Charitable Contributions	0	300,000
Taxes	30,000	30,000
3% AGI Floor	-24,000	-176,391
<b>Total Itemized</b>	<b>6,000</b>	<b>153,609</b>
Standard Deduction	12,600	12,600
<b>Total Deductions from AGI</b>	<b>12,600</b>	<b>153,609</b>
<b>Taxable Income</b>	<b>6,178,400</b>	<b>6,037,391</b>
<b>Regular Tax:</b>		
Schedule or Table Tax	2,392,313	2,336,473
Alternative Capital Gains Tax	2,362,913	2,307,073
<b>Appropriate Regular Tax</b>	<b>2,362,913</b>	<b>2,307,073</b>
High Income HI, Medicare & Other Tax	59,008	59,008
<b>Total Federal Taxes</b>	<b>2,421,921</b>	<b>2,366,081</b>
Withholding & Estimated Tax Payments	-2,421,921	-2,421,921
<b>Total Payments</b>	<b>-2,421,921</b>	<b>-2,421,921</b>
<b>Net Federal Tax Due</b>	<b>0</b>	<b>-55,840</b>

Federal Savings of \$55,840 ~18.6%

# Pease limitation



- Make contribution in lower income year.

	Baseline	300k Charitable
<b>Income:</b>		
Wages	3,000,000	3,000,000
Interest & Dividends	106,000	106,000
Capital Gains & Losses	85,000	85,000
<b>Total Income</b>	<b>3,191,000</b>	<b>3,191,000</b>
<b>Total Adjustments</b>	<b>0</b>	<b>0</b>
<b>Adjusted Gross Income</b>	<b>3,191,000</b>	<b>3,191,000</b>
<b>Personal Exemptions</b>	<b>0</b>	<b>0</b>
<b>Itemized Deductions:</b>		
Charitable Contributions	0	300,000
Taxes	30,000	30,000
3% AGI Floor	-24,000	-86,391
<b>Total Itemized</b>	<b>6,000</b>	<b>243,609</b>
Standard Deduction	12,600	12,600
<b>Total Deductions from AGI</b>	<b>12,600</b>	<b>243,609</b>
<b>Taxable Income</b>	<b>3,178,400</b>	<b>2,947,391</b>
<b>Regular Tax:</b>		
Schedule or Table Tax	1,204,313	1,112,833
Alternative Capital Gains Tax	1,174,913	1,083,433
<b>Appropriate Regular Tax</b>	<b>1,174,913</b>	<b>1,083,433</b>
High Income HI, Medicare & Other Tax	32,008	32,008
<b>Total Federal Taxes</b>	<b>1,206,921</b>	<b>1,115,441</b>
Withholding & Estimated Tax Payments	-1,206,921	-1,206,921
<b>Total Payments</b>	<b>-1,206,921</b>	<b>-1,206,921</b>
<b>Net Federal Tax Due</b>	<b>0</b>	<b>-91,480</b>

Federal Savings of \$91,480  
~30.5%

# Bunch deductions



- Make two years of contributions in one year
- The additional \$300k saves 39.6%
- Also consider contributing appreciated LTCG stock

	Baseline	300k Charitable	Another 300k
<b>Income:</b>			
Wages	3,000,000	3,000,000	3,000,000
Interest & Dividends	106,000	106,000	106,000
Capital Gains & Losses	85,000	85,000	85,000
<b>Total Income</b>	<b>3,191,000</b>	<b>3,191,000</b>	<b>3,191,000</b>
<b>Total Adjustments</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Adjusted Gross Income</b>	<b>3,191,000</b>	<b>3,191,000</b>	<b>3,191,000</b>
<b>Personal Exemptions</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Itemized Deductions:</b>			
Charitable Contributions	0	300,000	600,000
Taxes	30,000	30,000	30,000
3% AGI Floor	-24,000	-86,391	-86,391
<b>Total Itemized</b>	<b>6,000</b>	<b>243,609</b>	<b>543,609</b>
Standard Deduction	12,600	12,600	12,600
<b>Total Deductions from AGI</b>	<b>12,600</b>	<b>243,609</b>	<b>543,609</b>
<b>Taxable Income</b>	<b>3,178,400</b>	<b>2,947,391</b>	<b>2,647,391</b>
<b>Regular Tax:</b>			
Schedule or Table Tax	1,204,313	1,112,833	994,033
Alternative Capital Gains Tax	1,174,913	1,083,433	964,633
<b>Appropriate Regular Tax</b>	<b>1,174,913</b>	<b>1,083,433</b>	<b>964,633</b>
High Income HI, Medicare & Other Tax	32,008	32,008	32,008
<b>Total Federal Taxes</b>	<b>1,206,921</b>	<b>1,115,441</b>	<b>996,641</b>
Withholding & Estimated Tax Payments	-1,206,921	-1,206,921	-1,206,921
<b>Total Payments</b>	<b>-1,206,921</b>	<b>-1,206,921</b>	<b>-1,206,921</b>
<b>Net Federal Tax Due</b>	<b>0</b>	<b>-91,480</b>	<b>-210,280</b>

Federal Savings of \$118,800  
39.6%

# Education planning

A R M

- Joe and Sandy are high income earners and pay \$25,000 in tuition fees for their son Ryan (age 20).
- Due to Joe and Sandy's high AGI, they do not receive any federal benefit claiming Ryan as a dependent or any education credit or deduction.
- Ryan is in his second year of college and has wages of \$2,500 and investment income of \$10,000.

# Education planning



- Ryan is subject to kiddie tax. If Joe and Sandy claim Ryan, Ryan’s federal tax liability would be ~\$2k.

<b>Tax and Credits</b>	<b>38</b> Amount from line 37 (adjusted gross income) .....	<b>38</b>	<b>13,459.</b>
<small>Standard Deduction for -                  ● People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.</small>	<b>39a</b> Check <input type="checkbox"/> You were born before January 2, 1951, <input type="checkbox"/> Blind. } <b>Total boxes checked</b> ... ▶ <b>39a</b> <input type="checkbox"/>		
	if: <input type="checkbox"/> Spouse was born before January 2, 1951, <input type="checkbox"/> Blind. } <b>39b</b> <input type="checkbox"/>		
	<b>b</b> If your spouse itemizes on a separate return or you were a dual-status alien, check here .....		
	<b>40</b> <b>Itemized deductions</b> (from Schedule A) or your <b>standard deduction</b> (see left margin) .....	<b>40</b>	<b>2,904.</b>
	<b>41</b> Subtract line 40 from line 38 .....	<b>41</b>	<b>10,555.</b>
	<b>42</b> <b>Exemptions.</b> If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see inst. ....	<b>42</b>	<b>0.</b>
	<b>43</b> <b>Taxable income.</b> Subtract line 42 from line 41. If line 42 is more than line 41, enter -0- .....	<b>43</b>	<b>10,555.</b>
	<b>44</b> <b>Tax.</b> Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/> .....	<b>44</b>	<b>2,008.</b>
	<b>45</b> <b>Alternative minimum tax.</b> Attach Form 6251 .....	<b>45</b>	
	<b>46</b> Excess advance premium tax credit repayment. Attach Form 8962 .....	<b>46</b>	
<small>● All others:                  Single or Married filing</small>	<b>47</b> Add lines 44, 45, and 46 .....	<b>47</b>	<b>2,008.</b>

- By Joe and Sandy NOT claiming Ryan:
  - Ryan is not allowed to claim himself, BUT....
  - Ryan could take the nonrefundable education credit on his return resulting in no federal tax liability.

# Education planning



Tax and Credits		38	13,459.	
<b>Standard Deduction for -</b> ● People who check any box on line 39a or 39b <b>or</b> who can be claimed as a dependent, see instructions.  ● All others: Single or Married filing separately, \$6,300 Married filing jointly or Qualifying widow(er), \$12,600 Head of household, \$9,250	38	Amount from line 37 (adjusted gross income)	13,459.	
	39a	Check <input type="checkbox"/> You were born before January 2, 1951, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1951, <input type="checkbox"/> Blind. Total boxes checked ...	39a	<input type="checkbox"/>
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here	39b	<input type="checkbox"/>
	40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	2,904.
	41	Subtract line 40 from line 38	41	10,555.
	42	Exemptions. If line 38 is \$154,950 or less, multiply \$4,000 by the number on line 6d. Otherwise, see inst.	42	0.
	43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	10,555.
	44	Tax. Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/>	44	2,008.
	45	Alternative minimum tax. Attach Form 6251	45	
	46	Excess advance premium tax credit repayment. Attach Form 8962	46	
	47	Add lines 44, 45, and 46	47	2,008.
	48	Foreign tax credit. Attach Form 1116 if required	48	136.
	49	Credit for child and dependent care expenses. Attach Form 2441	49	
	50	Education credits from Form 8863, line 19	50	1,872.
51	Retirement savings contributions credit. Attach Form 8880	51		
52	Child tax credit. Attach Schedule 8812, if required	52		
53	Residential energy credits. Attach Form 5695	53		
54	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54		
55	Add lines 48 through 54. These are your total credits	55	2,008.	
56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-	56	0.	



- Erica has a dental practice and is taxed as an S-Corporation.
- Erica rents a building she owns to her dental practice.
- Typically, rental properties are treated as PASSIVE income (and are subject to the 3.8% medicare tax)
- BUT in this case, since Erica is renting her property to a business she materially participates in, the rental income is considered NONPASSIVE.
  - Example: Erica's overall AGI is \$450k. She has net rental income of \$30k. By treating the \$30k as nonpassive income instead of passive income, Erica avoids the Net Investment Income Tax of 3.8%

# MFS vs MFJ

A R M

- Ohio has same tax bracket whether filing separately or jointly
- Must file same as Federal
- Joint filing credit

# MFS vs MFJ

A

R

M

For taxable years beginning in 2015:

<b>Ohio Taxable Income</b>	<b>Tax Calculation</b>
0 – \$5,200	0.495%
\$5,200– \$10,400	\$25.74+ .990% of excess over \$5,200
\$10,400 – \$15,650	\$77.22+ 1.980% of excess over \$10,400
\$15,650 – \$20,900	\$181.17 + 2.476% of excess over \$15,650
\$20,900 – \$41,700	\$311.16 + 2.969% of excess over \$20,900
\$41,700 – \$83,350	\$928.71 + 3.465% of excess over \$41,700
\$83,350 – \$104,250	\$2,371.88 + 3.960% of excess over \$83,350
\$104,250 – \$208,500	\$3,199.52 + 4.597% of excess over \$104,250
More than \$208,500	\$7,991.89 + 4.997% of excess over \$208,500

# MFS vs MFJ

A

R

M

- Consider impact of Medicare Part B premiums
- If AGI too high, you pay an Income Related Monthly Adjustment Amount (IRMAA)

If your yearly income in 2014 (for what you pay in 2016) was			You pay each month (in 2016)
File individual tax return	File joint tax return	File married & separate tax return	
\$85,000 or less	\$170,000 or less	\$85,000 or less	\$121.80
above \$85,000 up to \$107,000	above \$170,000 up to \$214,000	Not applicable	\$170.50
above \$107,000 up to \$160,000	above \$214,000 up to \$320,000	Not applicable	\$243.60
above \$160,000 up to \$214,000	above \$320,000 up to \$428,000	above \$85,000 and up to \$129,000	\$316.70
above \$214,000	above \$428,000	above \$129,000	\$389.80

# Questions?

A R M

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