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TYLER LYNCH PC

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

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Above-The-Line Tax Deductions

When you are getting together information for preparing an income tax return or reviewing a return that's already prepared, it can pay to take a close look at the adjustments to income you can take on the bottom of page 1 of your Form 1040 or Form 1040A. These adjustments, which reduce the taxable income you'll declare, are known as above-the-line deductions—you enter them just above the last line on the page, where you report your adjusted gross income (AGI). Above-the-line deductions offer two key advantages. First, you are allowed to take the page 1 deductions regardless of whether you itemize deductions on Schedule A of your tax return. Second, above-the-line deductions reduce your AGI and, in many situations, also reduce your modified adjusted gross income (MAGI). A lower AGI or MAGI, in turn, can provide tax savings on various tax return items. For instance, most taxpayers now can deduct medical expenses only to the extent they exceed 10% of AGI. With a lower AGI, you may qualify for a larger itemized medical deduction.

Looking at the lineup

There are more than a dozen categories of above-the-line deductions. They include: IRAs, Self-employed health insurance and alimony; etc.

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Why You Need a Will

Your estate plan should include a will in order to handle the disposition of your assets. If you die "intestate," meaning without a will, some or all of your assets probably will be distributed according to state law. There are multiple reasons why you should have a will.

Beyond your will. An IRA or any other tax-advantaged retirement account will pass to the beneficiary you've named. Assuming you have filled out the beneficiary designation form—and you haven't named your estate as the beneficiary—at your death that account will go to the individual or individuals or trust you've selected. The same principle often applies to assets you own jointly.

Example 1: The principal residence of Walt and Vera Young is titled as joint tenants with right of survivorship (JTWROS). When one spouse dies, the other spouse will inherit the house as surviving owner. The outcome will be the same if any combination of people, related or not, own assets as JTWROS. Similar situations apply to many other types of assets. Annuities and life insurance proceeds go directly to beneficiaries. Payable-on-death bank accounts and transfer-on-death investment accounts pass to beneficiaries as well. In addition, any bank or brokerage or mutual fund accounts held as JTWROS will be owned by the surviv ing owner or

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IRA deductions. You can make contributions for 2015 until April 15 of 2016. Although many taxpayers won't be able to deduct IRA contributions because of income level and participation in an employer plan, some people might qualify for deductions.

Example: Alice Baker is a homemaker with no earned income in 2015; her husband, Carl, is employed and participates in his company's retirement plan. The MAGI (modified adjusted gross income) cap for Carl and Alice to make a deductible IRA contribution is different due to their participation in employer sponsored retirement plan. If the couple's MAGI for 2015 is over $118,000, Carl cannot make a deductible IRA contribution for that year. However, if the couple's 2015 MAGI is less than $183,000, Alice can make a fully tax deductible contribution of up to $5,500 ($6,500 if she is 50 or older).

Other retirement accounts. Contributions to such accounts also reduce your AGI. Moreover, if you had self-employment income in 2015, you can contribute to a simplified employee pension (SEP) plan until the due date of your 2015 tax return. Thus, with a filing extension, the SEP deadline can be October 15, 2016. You generally can contribute nearly 20% of your self-employment income, with a SEP contribution cap of $53,000 for 2015.

Self-employed health insurance. Self-employed individuals can deduct the premiums paid for any medical insurance, dental and long-term care insurance. Policies also can cover the worker's spouse, dependents, and non-dependent children who were under age 27 at the end of last year. What's more, the IRS has said that Medicare premiums paid by self-employed individuals can be taken as an above-the-line adjustment to income. There are some conditions that must be met to claim this deduction; our office can help you report the appropriate amount.

Alimony. Amounts you paid to your spouse or a former spouse under a divorce or separation decree that qualify as alimony for tax purposes are deductible here. Other above-the-line deductions include job-related moving expenses and interest payments on student loans. Our office can help you make the most of the various above-the line adjustments to income on your 2015 tax return.

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owners after one of the joint tenants dies. Assets owned as JTWROS or with beneficiary designations won't be controlled by your will;

Avoid probate. Assets with JTWROS titling, with beneficiary designations or in a revocable trust pass directly to the surviving owners and beneficiaries without the time and expense of going through the probate process. Nevertheless, you still should have a will, even if you believe most of your assets won't be covered. People rarely have all of their assets titled in such a way that everything will pass outside of probate. Some personal assets (including vehicles, collectibles and furnishings) probably will be owned outright at your death, rather than as JTWROS or in trust. Those assets should be listed in your will to make sure they wind up with the people or charities of your choice. Also, not all forms of joint ownership will have the same result as JTWROS. Property titled as tenancy in common, for instance, will pass under the terms of a will. Therefore, you should make sure your estate plan is in sync with the way your property is titled.

Naming names. In your will, you also can name the executor who will wind up your financial affairs. That might include paying outstanding bills, arranging for tax returns to be filed, making the necessary notifications, and so on. If there is no relative or friend likely to perform those tasks effectively, you might name a professional adviser or a financial institution. Moreover, if you have minor children when you create your will, you can name guardians who will raise them until they come of age, or alternatively, you can name those you wish to exclude.

Passive Activity Losses From Rental Property

In these times, investors might be thinking about rental property. Such investments can pay off, in the right situation. Before you make any decisions, though, you should be aware of the tax implications, especially the passive activity loss rules. Despite the language, those rules don't apply to familiar investments that might seem passive, such as buying corporate stocks or government bonds. Rental property is deemed to be a passive activity, so the passive activity rules typically apply to individual investors acting as landlords. Investing in real estate may deliver untaxed income, but deducting losses can be challenging. (The rules are different for individuals who are real estate professionals, but specific qualifications must be met.)

Depreciating while appreciating

Investment property owners can take depreciation deductions, even if the property is gaining value. What's more, this deduction requires no cash outlay.

Example 1: Brett Parker buys investment property for $400,000 and collects $1,800 in monthly rent. Thus, his annual income is $21,600. His out-of-pocket expenses (interest, insurance, maintenance) total $12,000, so Brett collects $9,600 in positive cash flow this year, in this hypothetical example. Suppose that Brett can claim $16,000 of depreciation deductions as well. Now Brett reports $21,600 of income and $28,000 ($12,000 plus $16,000) of expenses from the property, for a net loss of $6,400. Brett has reported a loss, so no income tax will be due on his rental income. For Brett, this would be $9,600 of tax-free cash flow. If he also can deduct the $6,400 loss from his other income, the tax treatment would be even better.

Loss lessons

In one scenario, Brett has another rental property that generates $7,500 of net income. This passive activity income from Property B can be offset by the $6,400 loss from Property A, so Brett reports a taxable profit of only a net $1,100. However, many people won't have passive activity income to offset, or their passive activity loss will be greater than that income. In those cases, deducting the loss from other income is possible, if certain conditions are met. For one, investors must play an active role in managing the property. You can hire a property manager but still play an active role, for this purpose, by making decisions involving the property's operation or management. Another condition of deducting losses from a rental property relates to your adjusted gross income (AGI). A deduction as great as $25,000 per year is permitted, but the deduction phases out as your AGI climbs from $100,000 to $150,000. That phaseout range is the same for joint or single filers.

IF YOU WOULD LIKE MORE INFORMATION ON THESE TOPICS OR IF YOU WOULD LIKE TO READ OTHER RELEVANT TOPICS, PLEASE REFER TO OUR WEBSITE AT

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