

Federal Tax Update 2016

Including:

**The Protecting Americans from Tax
Hikes of 2015 (A.K.A. PATH)**

Nassau/Suffolk Chapter – NCCPAP

February 4, 2016

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BIOGRAPHY

Steven Greenberg, CPA is a partner in Johnson Kass & Greenberg CPAs PC. He received a Bachelor in Business Administration, Summa Cum Laude, from Dowling College in 1979. The firm is a member of Island Tax and Accounting Group, LLC.

Mr. Greenberg is a past Chair of the National Tax Policy Committee of the National Conference of CPA Practitioners (NCCPAP) and has authored several position papers for NCCPAP. He has been an officer of the National Board of NCCPAP and a Past President of the Nassau/Suffolk Chapter. He has been a member of the IRS Brooklyn District Directors Tax Liaison Committee from its inception and is a member of the New York State Tax Commissioner's Practitioner Liaison Committee.

Mr. Greenberg has lectured for the Long Island Tax Practitioner Symposium, several NCCPAP Chapters on various taxation topics. Mr. Greenberg and Robert Goldfarb, CPA have co-authored the annual all day Individual Tax Update for the Nassau/Suffolk Chapter. They have presented the program jointly with an average daily audience in excess of 200 accountants. Mr. Greenberg has co-authored with Mr. Goldfarb the annual Tax Update for Loscalzo Associates. He has presented the Tax Update lecture to the NJ State Society of CPAs, the Financial Planning Association of Long Island and various firm on firm engagements on behalf of Loscalzo Associates. Mr. Greenberg was a technical editor for the book "The Money Club". He has been a presenter of tax lectures for several business groups, a multi discipline professional study group and to local law firms. He has also acted as moderator and presenter for numerous NCCPAP chapter meetings and a variety of local professional organizations.

Robert L. Goldfarb, CPA, PFS, DABFA, CFP, CFE
Principal

Bob was the Managing Partner of Schoenfeld Mendelsohn Goldfarb LLP when the 52 year old firm merged with Janover LLC on August 1, 2013 at which time Bob became a Principal of Janover LLC. He received his Masters of Arts degree from Adelphi University and his Masters of Business Administration from Hofstra University. Bob started his professional career in accounting over thirty-five years ago when he joined the staff of Price Waterhouse. He was a tax manager when he left price Waterhouse.

Bob has appeared on television news and has written several books on taxation updates for the profession. He was also the technical editor of *Clinton Administration Tax Legislation published by Harcourt, Brace & Janovich*. He has also spoken extensively for the American Institute of CPAs, many State Societies of CPAs and the National Conference of CPA Practitioners. Currently, Bob is a member of the New York State Board of Accountancy with a term ending on October 31, 2016.

Bob is a Past President of the National Conference of CPA Practitioners and served as Chair of their National Tax Policy Committee and their National Issues Committee for several years. He recently completed a three-year term on the governing council of the American Institute of CPAs and is an active member of the New York State Society of CPAs where is served as a member of several of their committees including the Executive Board of the Nassau County Chapter. Bob was also named as one of the 100 most influential people in Accounting for two consecutive years by the highly regarded publication *Accounting Today*. Additionally Bob was recognized as “Businessperson of the Year” for his service while President of the Great Neck Chamber of Commerce and President of the Great Neck Lions Club. He also was a Senior Adjunct Professor of Accounting at Adelphi University where he taught accounting for more than twenty years and was an adjunct professor for Hofstra University teaching in their CPA Review Course which was given to accounting students seeking their CPA certification.

Bob has raised more than \$30,000 for the Leukemia and Lymphoma Society by participating in several triathlons and more than \$15,000 on bicycle rides from Boston to New York for Aids Research. He recently completed an Iron Distance Triathlon in Sandusky, Ohio.

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1  **Federal Tax Update – 2016**
[Including The Protecting Americans from Tax Hikes of 2015 (A.K.A. PATH)]
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2  **PATH - OVERVIEW**

- 'the bill' is titled Protecting Americans from Tax Hikes Act of 2015.
- It originates as H.R. 2029.
- The President signed it December 18th, 2015.
- In general, provisions are retroactive to 1/1/2015 and in many cases extended permanently.
- Some provisions sunset.

3  **PATH**

BUSINESS PROVISIONS

See below

4  **EFFECTIVE DATE**

- The provisions of "the Act" are retroactive to January 1, 2015.
- There are some other dates thrown in.
- Hopefully we caught the critical ones for you.
- What a surprise legislation this was!
- At least we won't be talking of an extender bill next year.

5  **SECTION 179 EXPENSE**

- The increased limitations on annual expense cap of \$500K and annual placed in service cap phase out at \$2 Million are now PERMANENT!
- Special rules also made permanent for:
 - Computer Software – off the shelf (Note: data base software has specific restrictions.)
 - Qualified Real Property – Leasehold Improvements, restaurants & retail improvements.

6  **SECTION 179 EXPENSE**

- Heating and air conditioning units placed in service after 2015 are now considered equipment eligible for Section 179.
- HVAC had previously been excluded directly in the tax code under IRC 179.
- Eliminates the \$250K limitation allocated to qualified realty in 2016 (thus the entire \$500K can be real estate).

7  **BONUS DEPRECIATION**

- Provision is Temporary!
- Extended for 2015 through 2019
 - Extra year for long production period assets.
- Phase Out Deduction Threshold:
 - 2015, 2016 & 2017 50%
 - 2018 40%

– 2019 30%

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8 **BONUS DEPRECIATION**

- An extension from ATRA allows C corporations with unused R&D or AMT credits to free up credits in lieu of claiming bonus depreciation.
- Certain trees, vines and plants bearing fruit or nuts now qualify for bonus depreciation at the time they are planted or grafted instead of when placed in services.
- Winery clients should be told about this.

9 **R&D CREDIT**

- Section 121 of “the Act” contains some interesting but convoluted new rules.
- This impacts Internal Revenue Code Section 41, not IRC 121 for residences.
- The credit is made PERMANENT for 2015.
- Enhancements are effective for 2016.
- Note the nuance Congress used to define eligible versus qualified small business.
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10 **R&D CREDIT**

AMT relief for Eligible Small Business:

- Prior law has not allowed the use of the R&D credit for AMT purposes, effectively negating to value of investing in R & D.
- This usually had more significant impact on owners of flow through entities.
- Starting in 2016 the credit can offset AMT.
-

11 **R&D CREDIT**

AMT relief for Eligible Small Business:

- Taxpayer must have average receipts under \$50 Million for the past three years.
- It is possible to flow in and out of this allowance as revenue changes.
- Your software should track this but watch out if you switch vendors or engage a new client.
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12 **R&D CREDIT**

Payroll Tax Credit for Qualified Small Business:

- The header to Section 121(c) of the actual statute is titled:
“TREATMENT OF RESEARCH CREDIT FOR CERTAIN STARTUP COMPANIES”
- It might be less confusing if they retained the word ‘startup’ in this section of the actual law.

13 **R&D CREDIT**

Payroll Tax Credit for Qualified Small Business:

- This is not the same taxpayer from the previous slides, as a \$5 Million gross receipts test applies.
- However, this is not a rolling average!
- There is a two prong test.
- No 501 type organization is eligible.

14  **R&D CREDIT**Payroll Tax Credit for Qualified Small Business:

- The taxpayer must have :
 1. Gross receipts of less than \$5 Million for the current tax year, AND
 2. Had no gross receipts for any taxable year prior to a five taxable year period ending with the current taxable year.
- Thus a five year cap is created by the law.
-

15  **R&D CREDIT**Payroll Tax Credit for Qualified Small Business:

- For example, a taxpayer filing a calendar 2016 return, must not have had any gross revenue prior to 1/1/2012.
- Since 2011 is six years prior, any gross revenue in 2011 or before will taint each year on a rolling five year basis.

16  **R&D CREDIT**Payroll Tax Credit for Qualified Small Business:

- Taxpayers must file an election:
 - Specify amount of the credit.
 - File by due date (including extensions).
 - Revocation requires Secretary of Treasury consent.
- Maximum election in any year is \$250K.
- Cannot make election if T/P made the election in any 5 preceding taxable years.

17  **R&D CREDIT**Payroll Tax Credit for Qualified Small Business:

- Aggregation rules apply.
- Election for a partnership or an S Corporation is made at the entity level.
- Credit is only for the Social Security portion of the payroll tax and not the Medicare portion.
- The credit is claimed on the first payroll tax return that begins after the Qualified Small Business files its income tax return that reports the R&D credit.

18  **R&D CREDIT**Payroll Tax Credit for Qualified Small Business:

- Unused payroll tax credit under IRC 41(h) is then carried forward to subsequent payroll quarters.
- Although beyond the scope of this program, practitioners should look at the R&D rules, the regular credit and the reduced simplified credit rules.
- Congress did not raise the simplified rate from 14% to 20% as some thought would happen, but the payroll tax credit alone may make this worth a look.

19  **WORK OPPORTUNITY CREDIT**

- Path extends the existing credit for 2015 through 2019.
- A provision beginning in 2016 creates a new classification of 'qualified long-term unemployed individuals' (unemployed 27 weeks or more).
- Credit for such persons is 40% of the first \$6,000 of wages.

- 20 **15 YEAR S/L QUALIFIED PROPERTY**
- Starting with 2015 this is now PERMANENT.
 - Applies to the same types as prior law:
 - Qualified Leasehold Improvements.
 - Qualified Restaurant Property.
 - Qualified Retail Improvements.
 - We will not review the property requirements in this program, but this is so much better than 39 years if you can qualify.
- 21 **WAGE CREDIT & ACTIVE DUTY**
- Unfortunately, the Congress so often writes laws to help small business or certain taxpayers that are insanely complex.
 - We are not exploring all the rules of the credit today, but you may need to read them.
 - Congress made PERMANENT the 20% credit (which is limited to \$20K of qualified differential wages) beginning with 2015.
- 22 **WAGE CREDIT & ACTIVE DUTY**
- Beginning with 2016 all employers may claim the credit.
 - Previously, the credit was limited to employers that had 50 or fewer employees.
 - It may not be dramatic, but it is another small step to help those that protect our freedom.
- 23 **GAIN ON SMALL BUSINESS STOCK**
- IRC Section 1202 was enacted in 1993 to encourage investment into technology and startup entities.
 - The original format excluded from income 50% of the gain of qualified stock.
 - However, the other 50% was an add back to income for AMT purposes.
- 24 **GAIN ON SMALL BUSINESS STOCK**
- Taxpayers in the AMT had no tax advantage from investing in such companies.
 - At times, Congress has changed the rules to exempt 75% and even 100% of the gain from tax, but, always with the AMT kicker taking away the benefit for most people.
 - PATH PERMANENTLY extends the 100% exclusion.
- 25 **GAIN ON SMALL BUSINESS STOCK**
- PATH also PERMANENTLY extends the elimination of the AMT preference.
 - These must be C corporations with a trade or business purpose and less than \$50 million of capitalization plus other rules.
 - The advent of the LLC format today makes the Section 1202 entity rare, but if a client has this situation make sure you claim the exclusion.
- 26 **MISCELLANEOUS PROVISIONS**
- 'the bill' also extends through 2016:
 - Credits for Indian employment, railroad track maintenance and mine rescue team training.
 - Qualified zone academy bonds.
 - Election to expense mine safety equipment.
 - Domestic production deduction for activities in Puerto Rico.
 - Empowerment zone incentives.
 - Certain rum excise tax.
 - American Samoa development credits.

27 **BUILT IN GAINS TAX**

- Finally !!! Congress has made the five year waiting period PERMANENT.
- Taxpayers may want to reconsider electing.
- The benefit could be especially significant if a sale of created goodwill or similar capital gain items is expected in greater than five years.
- Consider state tax issues.

28 **SUB S BASIS FOR DONATIONS**

- In most cases, individual taxpayers can deduct the fair market value of appreciated property (must be L/T gain eligible).
- Under prior law, when a Sub S donated appreciated property the deduction was at FMV but the corresponding reduction of the Sub S basis was also at FMV.

29 **SUB S BASIS FOR DONATIONS**

- The prior treatment put Sub S owners at a tax disadvantage compared with someone that contributed substantially similar property that they owned personally.
- Path PERMANENTLY extends the law that reduces the Sub S basis by the Shareholder's pro-rata portion of the inside basis.

30 **CONTRIBUTED FOOD INVENTORY**

- Food must be "apparently wholesome" and used in your trade or business.
- Used to care for ill, needy or infants.
- For other documentation requirements and rules see Publication 526.
- The deduction is limited based on AGI or taxable income in the case of a corporation.

31 **CONTRIBUTED FOOD INVENTORY**

- For 2015 'the bill' PERMANENTLY extends the deduction and maintains the limit at 10%.
- For 2016, deduction limit increases to 15%.
- The worksheet in Publication 526 provides some interesting insights.
- Most calculations provide a deduction of basis plus one-half of the unrealized increase of FMV of the food above basis.

32 **CONTRIBUTED FOOD INVENTORY**

- However, the deduction can never exceed basis x 2.
- Assets with a very low basis, compared to FMV, will lose a large part of the tax incentive available under this provision.
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33 **ENERGY INCENTIVES**

- PART 3 OF 'the bill' is dedicated to the extension of many energy credits for 2016.
- This encompasses Sections 181 to 193 of 'the bill'.
- Practitioners should check to ensure any credit they are claiming is still available.
- Don't forget the residential energy credit still carries a \$500 lifetime cap, Oh! Boy!

34 **HEALTHCARE PROVISION**

- A 2.3% excise tax on the sale of medical devices was instituted under the Affordable Care Act.
- PATH delays implementation for sales in calendar years 2016 & 2017.
- Also delayed from 2018 to 2020 is the "Cadillac tax" on high-cost employer sponsored health coverage.

35  **PATH****INDIVIDUAL PROVISIONS****See Below**36  **INDIVIDUAL PROVISIONS**

- American Opportunity Tax Credit (AOTC)
- Deduction For Certain Expenses of Elementary & Secondary School Teachers
- Transit Benefits Parity
- Deduction For State and Local Sales Taxes
- Reduced Earnings Threshold for Additional Child Tax Credit
- Modification of the EITC
- Tax-Free Distributions From Individual Retirement Plans For Charitable Purposes For Individuals age 70½ and older
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37 **Reduced Earnings Threshold for Additional Child Tax Credit**

- The enhanced child tax credit (CTC) was PERMANENTLY extended – whatever that means
- The CTC is \$1,000
- To the extent the CTC exceeds the taxpayer's tax liability, the taxpayer is eligible for a REFUNDABLE credit equal to 15% of earned income in excess of a threshold dollar amount (the "earned income" formula).

38 **Reduced Earnings Threshold for Additional Child Tax Credit**

- Until 2009, the threshold dollar amount WAS \$10,000 indexed for inflation from 2001 (which would be roughly \$14,000 in 2015).
- Since 2009, however, the threshold dollar amount has been set at an UNINDEXED \$3,000 and was scheduled to expire at the end of 2017, returning to the \$10,000 (indexed for inflation) amount.
- PATH permanently sets the threshold amount at an UNINDEXED \$3,000.

39 **Reduced Earnings Threshold for Additional Child Tax Credit**

- PATH prohibits an individual from retroactively claiming the CTC by amending a return (or filing an original return if the taxpayer failed to file a return) for any prior year in which the individual or a qualifying child for whom the credit is claimed did not have an ITIN.
- PATH expands the paid preparer due diligence requirements, to cover returns claiming the CTC

40 **Modification of the EITC**

- For tax years 2009 – 2017, the EITC amount had been temporarily increased for those taxpayers with 3 or more children.
- Additionally, the EITC marriage penalty had been reduced by increasing the income phase-out range by \$5,000 (indexed for inflation) for those taxpayers who were MFJ.
- PATH makes these two provisions PERMANENT.

41 

Modification of the EITC

- PATH ALSO eliminates the exception for the 20% penalty for erroneous refunds and credits that applied to EITC, but does provide a reasonable-cause relief provision.
- This provision is effective for tax returns filed AFTER DECEMBER 31, 2015
- Additionally, PATH expands the paid-preparer due diligence requirements with respect to the EITC as well as the associated \$500 penalty for failures to comply.

42 

American Opportunity Tax Credit (AOTC)

- The HOPE Scholarship Credit is a credit of \$1,800 (indexed for inflation) for various tuition & related expenses for the FIRST 2 years of post-secondary education.
- In 2009 The American Opportunity Credit made temporary increases to the amount of the credit and to the phase out ranges.

43 

American Opportunity Tax Credit (AOTC)

- This has been extended multiple times before.
- The credit phases out for AGI starting at \$48,000 (Single) and \$96,000 (MFJ).
- These amounts are also indexed for inflation.
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44 

American Opportunity Tax Credit (AOTC)

- PATH permanently increases the credit to \$2,500 for four years of post-secondary education AND
- Increases the beginning of the phase-out period to \$80,000 (Single) and \$160,000 (MFJ) for 2009 – 2017.
- PATH makes AOTC Permanent.
- These provisions are effective for tax years beginning AFTER December 31, 2015

45 

Deduction For Certain Expenses of Elementary & Secondary School Teachers

- PATH permanently extends this above-the-line-deduction (capped at an amazingly high \$250) for eligible expenses of elementary and secondary school teachers
- Beginning in tax year 2016, the Act also modifies the deduction to index the \$250 cap to inflation AND include professional development expenses.

46 **Transit Benefits Parity**

- PATH permanently extends the maximum monthly exclusion amount for transit passes and van pool benefits so that these transportation benefits match the qualified parking benefits
- These benefits are excluded from an employee's wages for payroll tax purposes and from gross income for income tax purposes

47 **Deduction For State and Local Sales Taxes**

- PATH permanently extends the option to claim an itemized deduction for state and local general sales taxes in lieu of an itemized deduction for state & local income taxes
- The taxpayer may either deduct the actual amount of sales tax paid in the tax year or deduct an amount prescribed by tables created by the IRS

48 **Tax-Free Distributions From Individual Retirement Plans For Charitable Purposes For Individuals age 70½ & older**

- PATH permanently extends the ability of individuals age 70½ or older to exclude from gross income qualified charitable distributions from IRAs.
- The exclusion may not exceed \$100,000 per taxpayer per tax year (IRS Notice 2007-7).

49 **Exclusion from Gross Income of Discharge of Qualified Personal Residence Indebtedness**

- PATH extends, but NOT permanently, through 2016 the exclusion from gross income of a discharge of qualified principal residence indebtedness.
- It also modifies the exclusion to apply to qualified principal residence indebtedness that is discharged in 2017, if the discharge is pursuant to a written agreement entered into in 2016.

50 **Mortgage Insurance Premiums Treated as Qualified Residence Interest**

- PATH extends, but NOT permanently, through 2016 the treatment of qualified mortgage insurance premiums as interest for purposes of the mortgage interest deduction.
- This deduction phases out ratably for a taxpayer with AGI of \$100,000 to \$110,000.

51 **Above-the-Line Deduction for Qualified Tuition and Related Expenses**

- PATH extends, but NOT permanently, through 2016 the above-the-line deduction for qualified tuition and related expenses for higher education.
- The deduction is capped at \$4,000 for an individual whose AGI does not exceed \$65,000 (130,000 for MFJ) or \$2,000 for individuals whose AGI does not exceed \$80,000 (\$160,000 for MFJ).

52 

Elimination of Residency Requirement for Qualified ABLE Programs

- Beginning in 2015 PATH allows ABLE accounts (tax preferred savings accounts for disabled individuals) which currently may be located ONLY in the state of residency of the beneficiary, to be established in ANY state.
- This provision will allow individuals setting up ABLE accounts to choose the state program that best fits their needs, such as with regard to investment options, fees & account limits.

53 

Improvements to Section 529 Accounts

- PATH provides for the expansion of the definition of qualified education expenses for which tax-preferred distributions from Section 529 accounts are eligible to include computer equipment and technology.
- This provision modifies 529-account rules to treat any distribution from a 529 account as coming only from that account, even if the individual making the distribution operates more than one account.

54 

Improvements to Section 529 Accounts

- This provision treats a refund of tuition paid with amounts distributed from a 529 account as a qualified expense if such amounts are re-contributed to a 529 plan within 60 days.
- This provision is effective for distributions made or refunds made after 2014, or in the case of refunds after 2014 and before the date of enactment (December 18, 2015), for refunds re-contributed not later than 60 days after the date of enactment (i.e. February 16, 2016).

55 

THE FOLLOWING SLIDES ARE NOT RELATED TO
PATH
BUT COVER OTHER INTERESTING CURRENT TAX ITEMS
WE THINK

56 

Highway Funding Act

What Does This Have To Do With Tax Filing Due Dates

- The Highway Funding Act made a series of changes to the Tax Return Filing Due Dates!
 - Partnership Returns – For Calendar Year Partnership The Returns Are Now Due March 15th
 - Fiscal Year Partnership Returns are Due 15th day of 3rd month after year-end.
 - Six month extension is available
- Generally, effective for returns filed after 12/31/2016.

57 

Highway Funding Act

What Does This Have To Do With Tax Filing Due Dates

- The Highway Funding Act made a series of changes to the Tax Return Filing Due Dates!
 - C Corporations – Calendar year C Corporations are now due April 15th
 - Fiscal Year C Corporations are due 15th day of 4th Month after year end UNLESS the year end is June 30 in which case the due date is the 15th day of the 3rd month after year end

- For C Corporations with a June 30 year-end the due date for filing the tax return will be September 15 through September 15, 2026 after which time the tax returns will be due October 15th – clearly a budgetary issue!

58 **Highway Funding Act**

What Does This Have To Do With Tax Filing Due Dates

- The Highway Funding Act made a series of changes to the Tax Return Filing Due Dates!
 - C Corporations – Extensions – (Uh-Oh!)
 - Generally a 6-month extension will be apply UNLESS
 - A calendar year end C Corporation gets a FIVE (5) month extension
 - A June 30 year end C Corporation gets a SEVEN (7) month extension
 - S Corporation tax returns are still due March 15th with the ability to have a 6 month extension.

59 **Highway Funding Act**

What Does This Have To Do With Tax Filing Due Dates

- The Highway Funding Act made a series of changes to the Tax Return Filing Due Dates!
 - Fiduciary Returns
 - Returns due April 15th – Extended due date is September 30th!! – 5½ months from April 15th
 - FBAR Reports
 - FinCen 114 Report will now be due by April 15th with an extended due date of October 15th
 - Individuals – NO CHANGES

60 **NEW FORM 8971**

Information Regarding Beneficiaries Acquiring Property From a Decedent

- The form is a Single page with a Schedule A
- Part I – Decedent & Executor Information
- Part II – Beneficiary Information
- Schedule A – Information Regarding Beneficiaries Acquiring Property from a Decedent
 - Requests General Information and specific information regarding property acquired by the beneficiary
- Notice To Executors at bottom of Form
 - “Submit Form 8971 with a copy of each completed Schedule A to the IRS. To protect privacy, Form 8971 should NOT be provided to any beneficiary. Only Schedule A of Form 8971 should be provided to the beneficiary.”

61 **NEW FORM 8971**

Information Regarding Beneficiaries Acquiring Property From a Decedent

SCHEDULE A

- Column A – Item No.
- Column B – Description of Property Acquired
- Column C – Did This Asset Increase Estate Tax Liability? (Y/N)
- Column D – Valuation Date
- Column E – Estate Tax Value (In U.S. Dollars)

62 **NEW CAPITALIZATION REGS - UPDATED**

- Final tangible property regulations permit businesses to elect to expense their outlays for “de Minimis” business expenses.
- If the taxpayer is eligible for the “de Minimis” safe harbor election, and chooses it, an

amount paid to acquire or produce any eligible unit of production (or any eligible material or supply) is deducted under Code Section 162 in the year paid or incurred.

63 ■ **NEW CAPITALIZATION REGS - UPDATED**

- In Notice 2015-82, 2015-50 IRB, IRS increased the Reg. Section 1.263(a)(f)(1)(ii)(D) “de Minimis” safe harbor limitation for a taxpayer without an AFS from \$500 to \$2,500!!!
- This increase is effective for costs incurred during tax years beginning on or after January 1, 2016, but use of the new threshold won’t be challenged in tax years prior to 2016.
- The limit for taxpayers WITH an AFS REMAINS at \$5,000.

64 ■ **DEMUTUALIZATION**

- And you thought we were done with this topic?
- The Tax Court ruled that the Campbell Soup heirs have no basis in stock they received upon demutualization of a life insurance company.
- The court ruled their premiums had no bearing on their rights in demutualization.
- Dorrance v. U.S., 2015 PTC 438 (9th Cir. 2015)

65 ■ **MORTGAGE DEBT LIMITATION**

- The Ninth Circuit has reversed the Tax Court in a case that could impact many taxpayers.
- Unmarried taxpayers share two homes.
- The debt on both homes exceeded \$2.6 million in both years the IRS audited.
- The IRS allowed a deduction for a fraction of the debt, the numerator being \$1.1 million.
- Home equity debt is present here.

66 ■ **MORTGAGE DEBT LIMITATION**

- The 9th Circuit ruled that each taxpayer is entitled to his own debt limit. (Sophy, 138 TC 204 (2012)).
- The Code is silent as to the treatment of unmarried co-owners.
- The court reasoned that the Code is clear in MFS situations the limit is half per taxpayer and not per residence.

67 ■ **83(b) ELECTION CHANGES**

- So, what is 83(b)?
- It comes right after 83(a) and, all kidding aside, Section 83 is dedicated to the recognition of income from providing services.
- A person who receives a share of stock, for example, as a condition of employment would generally recognize ordinary income on the FMV less any amount actually paid.

68 ■ **83(b) ELECTION CHANGES**

- In most cases, these kind of shares are associated with start-up entities and are subject to “substantial risk of forfeiture” if employment is not continued.
- Under 83(a) the income would be deferred until the restriction lapses.
- The taxpayer will pay a large ordinary tax upon sale if the stock appreciates significantly.

69 ■ **83(b) ELECTION CHANGES**

- Under 83(b) taxpayers can elect to pay tax on the untaxed spread now as ordinary income.
- Future sales will generate capital gain.
- The risk is greater as the recognizable income at the time of issue increases, since a loss on such stock is a capital loss.
- For a start-up entity with little or no value, an 83(b) election is almost standard

procedure.

70  **83(b) ELECTION CHANGES**

- The Employer usually files the 83(b) elections for all employees that made one within 30 days as required by the IRS.
- Until now, the individual also had to attach a copy of the PDF to their tax return or file on paper if the PDF is not supported in software.
- Sometimes taxpayers did not understand the importance and did not tell the preparer.

71  **83(b) ELECTION CHANGES**

- The IRS has issued a proposed amendment to Regulation 1.183-2(c) that eliminates the requirement to attach an 83(b) election to the individual return.
- The IRS acknowledged that they already scan the election when the employer files it, so this eliminates the redundancy and simplifies filing of the personal tax return.

72  **FORM 1098 CHANGES**

- The 2016 Form 1098 is amended to provide additional information under IRC 6050H.
- The new items are:
 - Outstanding principal at beginning of year.
 - Address of property.
 - Mortgage origination date.
- Be careful if you represent co-ops.
- Effective for returns filed after 12/31/2016.

73  **OVERSTATED BASIS CAVEAT**

- Taxpayers that omit more than 25% of their gross income are subjected to a longer six year statute of limitations.
- In *Home Concrete & Supply LC 132 S Ct. 1836 (2012)* the Supreme Court decided that reporting the total sale is the test, even if basis was significantly overstated.
- The omitted gain is less than 25% of income.

74  **OVERSTATED BASIS CAVEAT**

- The IRS argued that the overstated basis is an omission of income for this test.
- The IRS was very unhappy because many *son of boss* cases involve basis issues and may last more than three years.
- The Surface Transportation ... bill contained a number of interesting provisions, and herein Congress has overruled the Supreme Court!
-

75  **OVERSTATED BASIS CAVEAT**

- By Statute, the overstatement of basis is now an omission from gross income.
- The Act was enacted July 31, 2015.
- Effective on date of enactment and any open years.
- This one could sneak up on you, so get documentation of source data.

76  **STUDENT LOAN CANCELLATION**

- Does the cancellation of student loan debt generate taxable income?
- It depends.
- In general, the cancellation of debt is considered taxable income as it increases the wealth of the individual, however
- Exclusions exist, such as under IRC 108(a)(1)(B) for insolvency.

77 **STUDENT LOAN CANCELLATION**

- Thus, a student loan COD will not be taxable if the student is insolvent after the forgiveness.
- Students with graduate loans may have rates of 6.85% or even 8.5% and their monthly payments are income adjusted six months after graduation, and last for many years.
- There is negative amortization and this is very dangerous.

78 **STUDENT LOAN CANCELLATION**

- Many students will pay for 15 or 20 years and owe substantially more than the original principal.
- The tax on the COD could be crippling since the person may be a totally solvent by then.
- A special exemption was enacted in 1984 [108(f)(1)] for persons working in certain industries and under-served areas.

79 **STUDENT LOAN CANCELLATION**

- Not many clients you see are likely to meet the requirements of 108(f)(1) so practitioners may want to warn their clients to look for these situations.
- The IRS issued Rev Proc 2015-51 and 2015-57.
- The IRS is providing relief for students related to Corinthian Colleges, Inc., which is under various Federal and State probes.

80 **STUDENT LOAN CANCELLATION**

- Two programs allow discharges:
- Closed School Program
 - Student was attending or about to attend and the school was closed.
- Defense to Repayment process
 - The school's actions would give rise to a "cause of action" in defense of repayment.
- There is no statutory allowance for exclusion.

81 **STUDENT LOAN CANCELLATION**

- The IRS is instructing taxpayers affected to not add the COD amount to their income.
- As well, the IRS will not require taxpayer to amend prior returns for items such as tax credits and student loan interest for accounts forgiven under this program.
- Effective January 1, 2015.

82 **FORM 5471 COMPLIANCE**

- What is Form 5471?
- This form is used to report information regarding the ownership of foreign corporations by a US person, partnership, corporation, estate or trust.
- NOTE: Control is measured in part by a 30 day ownership test, so take nothing for granted.
- Document your data sources.

83 **FORM 5471 COMPLIANCE**

-
- There are five categories of filers:
 - Category 1 - was repealed in 2004.
 - Category 2 – US citizen or resident who is officer, director of a foreign corporation.
 - Category 3 – Essentially talks about additional acquisitions and cumulative ownership.
 - Category 2 & 3 generally have a 10% ownership test.

84  **FORM 5471 COMPLIANCE**

-
- There are five categories of filers:
 - Category 4 – Non-resident aliens are added to the definition of Person and 50% ownership test.
 - Category 5 – Introduces the term CFC (Controlled Foreign Corporation) and aggregation of multiple persons own a combined interest over 50% of
 - Voting stock.
 - Total Value.

85  **FORM 5471 COMPLIANCE**

- The above introduction barely scratches the surface of what you need to do if a client is in one of the categories.
- Form 5471 contains a variety of sections and schedules.
- As you move up the categories, more disclosure is required, until it is eventually a very detailed financial report.

86  **FORM 5471 COMPLIANCE**

- On 11/25/15 the IRS issued an IPU (International Practice Unit) addressing the word “substantial” in relation to the filing of Form 5471.
- An IPU is not an official pronouncement, but does provide guidance on how the IRS will treat certain items.
- It addresses IRC 6038 and 6046.

87  **FORM 5471 COMPLIANCE**

- The IPU clarifies that if multiple persons are required to file Form 5471, one person may file for everyone.
- Each person covered must be listed, including their status as officer, director and such.
- The other persons must attach a statement to their return indicating the joint filing.

88  **FORM 5471 COMPLIANCE**

- Why are we concerned?
- PENALTIES!
- The penalty is \$10,000 for each year and additional harsh penalties if not cured within 90 days of IRS notification for:
 - Filing late.
 - Filed substantially incomplete.
 - Not filed.

89  **FORM 5471 COMPLIANCE**

- Form 8938 - Statement of Specified Foreign Financial Assets may be required.
- Duplicative Reporting Exception:
 - Filers are not required to complete Form 8938 and, instead, must indicate on Form 8938 the number of related forms that are attached for the following:
 - 3520, 3520-A, 5471, 8621, and 8865.

90  **FORM 5471 COMPLIANCE**

- The statute of limitations ends three years after a “*substantially complete*” Form 5471 is filed.
- Thus, the definition of “*substantially complete*” is extremely important.
- The IPU provides insight into the items that cause the most errors on Page 1 of the Form.

- YES! Page 1, some basic data.

91 **FORM 5471 COMPLIANCE**

- We suspect that many of these deficiencies are because the preparer did not receive correct information and tried to meet the filing deadline anyway.
- Most of the time you will receive information that is from overseas and translated.
- The schedules require some difficult conversions to US tax rules.

92 **FORM 5471 COMPLIANCE**

- We suggest that practitioners put obtaining the Form 5471 data on the early to do list.
- You should become familiar with where to find conversion rates on the internet for the functional currency of the home country of the CFC.
- Substantial compliance is not defined in IRC.
- Some of the errors disclosed in the IPU follow:

93 **FORM 5471 COMPLIANCE**

1. Item B – category of filer is not filled in.
 2. Item C – the total percentage of the foreign corporations voting stock owned at the end of the accounting period is omitted or incongruous to the type of filer.
 3. Item 1(a) – Name of the foreign corporation is omitted or incomplete.
 4. Item 1(b)(1) & (2) Reference or ID number.
-

94 **FORM 5471 COMPLIANCE**

- Other Form 5471 Common Deficiencies
 - Required schedules omitted.
 - Required information will be furnished upon request.
 - Computer generated forms that are not IRS compliant.
 - Financial statements of CFC not provided.
 - Providing consolidated financials as segregated data is required.

95 **FORM 5471 COMPLIANCE**

- The IPU refers to Chief Council Advice 200429007 which indicates that a “facts and circumstances” approach will be needed to determine whether an over or under reporting was substantial.
- The IPU reiterates that financial statement data is required to be on a GAAP basis.
- We hope you are ready for a drink now.

96 **STANDARD MILEAGE**

IRS Notice 2016-01

-

	<u>2016</u>	<u>2015</u>
• Business	54.0 Cents	57.5 Cents
• Charitable	14.0 Cents	14.0 Cents
• Medical	19.0 Cents	23.0 Cents

97 **STANDARD MILEAGE**

- Portion of rate deemed to be depreciation (make sure to adjust basis for business portion upon sale) in cents:
 - 2016 23 cents

- 2015 24 cents
- 2014 22 cents
- 2013 23 cents
- 2012 23 cents
- 2011 22 cents

98  **NEW FORM 2848**

- Newly Released Form – Newest Revision December, 2015.
- Important Changes Include:
 - Form 2848 must be mailed or faxed to the IRS because of the discontinuance of electronic filing of the form under the IRS Disclosure Authorization Program. All references to electronically filing the form have been deleted.

99  **NEW FORM 2848**

- Important Changes Include:
 - The new instructions finally indicate the correct fax numbers & mailing addresses for filing.
 - Line 2 was changed to allow FOUR names to be entered.
 - Changes came about as a consequence of the ACA
 - Line 3 (Acts Authorized) has been changed with this language added for description of tax matter:
 - “Income, Employment, Payroll, Excise, Estate, Gift, Whistleblower, Practitioner Discipline, PIR, FOIA, Civil Penalty, Section 5000A Shared Responsibility Payment, Section 4980H Shared Responsibility Payment, etc.”

100  **NEW FORM 2848**

- Important Changes Include:
 - The instructions also have been changed to add the following other matters that may be applicable for the Form 2848 being filed:
 - “If the matter is not a tax matter, or if the tax form or year or periods do not apply to the matter (for example, representation for a penalty period or filing a request or determination letter, or Application for Award for Original Information under Section 7632, Closing Agreement on Final Determination Covering Specific Classification Settlement Program (CSP), Form 8952, Application for Voluntary Classification Settlement Program (VCSP), or FOIA), specifically describe the matter to which the POA pertains.

101  **NEW FORM 2848**

- Important Changes Include:
 - Line 5a (Additional acts authorized) also has been changed to include authorizing the representative to perform other acts: authorize disclosure to third parties; substitute or add representatives; sign a return; and a fill-in section entitled “other acts authorized.”
 - The instructions provide guidance on obtaining a list of current POAs on file by CAF number and withdrawing a previously filed Form 2848

102  **NEW FORM 2848**

- The Patient Protection & Affordable Care Act
 - The PPACA enacted Code Section 5000A, the individual shared responsibility payment (individual mandate) and Code Section 4980H, the employer-shared responsibility

payment (employer mandate).

- Taxpayers must now specify on Form 2848, “Description of Matter,” if they are authorizing representation for the individual mandate or the employer mandate.

103 **Is Your Client a Victim of ID Theft?**

- In a late posting, the IRS posted instructions on its website (<https://www.irs.gov/individuals/instructions-for-requesting-copy-of-fraudulent-returns>) for taxpayers or their CPA or other authorized representative to obtain copies of returns filed by thieves using the taxpayers’ stolen identification.
- The new procedures represent a change of policy for the IRS, which previously had refused to release fraudulent returns due to privacy concerns

104 **Is Your Client a Victim of ID Theft?**

- A request by an identity theft victim must include the taxpayer’s:
 - Name & SS number
 - Mailing Address
 - Tax Year(s) requested AND
 - The statement “I declare that I am the Taxpayer”
 -

105 **Is Your Client a Victim of ID Theft?**

- In addition to the victim’s items in 1 through 3 above, a request by a person authorized to obtain an identity theft victim’s tax information must include the requesting person’s:
 - Name and Tax ID Number
 - Relationship to the Identity theft victim
 - Mailing Address
 - CAF Number AND
 - The statement “I declare that I am a person authorized to obtain the tax information requested.”
 -

106 **Is Your Client a Victim of ID Theft?**

- A requesting authorized person must also include documents demonstrating the person’s authority to receive the request tax return information, such as Form 2848 unless:
 - The person is requesting return information of a minor child as a parent or legal guardian, or
 - The person’s authority to obtain return information for the requested tax year(s) is on file with the IRS, and the person is providing his or her CAF number.
- The identity theft victim’s mailing address on the request much match the IRS’s last known address on file for the victim.

107 **Is Your Client a Victim of ID Theft?**

- The provided returns will partly redact names and addresses of primary and secondary taxpayers and dependents.
- They will fully redact names and addresses of all other persons or entities.
- They will redact, except for the last 4 digits, taxpayer identification numbers, EIN, Telephone Numbers and bank routing and account numbers
- Personally identifiable numbers, PTINs and signatures will be fully redacted.

108 **New IRC Section 7345**

- On December 3, 2015 Congress passed H.R. 22, the “Fixing America’s Surface Transportation (FAST) Act.

- This Transportation Act contained several tax-related provision.
- The Act adds new Code Section 7345
- Under the new code section, having a “SERIOUSLY DELINQUENT TAX DEBT” that exceeds \$50,000 is, unless an exception applies, grounds for denial, revocation or limitation of a passport, EFFECTIVE JANUARY 1, 2016.

109  **New IRC Section 7345**

- Passports are issued by the State Department, not by the IRS – Therefore, some information sharing will now be permitted/required.
- A seriously delinquent tax debt is one for which:
 - A notice of lien has been filed under Code Section 6323, or a notice of levy has been filed under Code Section 6331.
 - There is no agreement in place to repay the debt under Code Sections 6159 or 7122
 - Collection isn’t suspended because of a collection due process hearing under Code Section 6330 or because innocent spouse relief is requested or pending.

110  **New IRC Section 7345**

- The \$50,000 amount will be adjusted by inflation for calendar years beginning after 2016.
- The Act provides procedures for, and restrictions on, IRS’s disclosure of the return information for purposes of passport revocation.

111  **New Rules Mandating IRS Use of Private Debt Collectors**

- The FAST Act adds new subsections to Code Section 6306.
 - New Subsection 6306(c) says that the IRS shall enter into one or more qualified tax collection contracts for the collection of all outstanding “inactive tax receivables.”

112  **New Rules Mandating IRS Use of Private Debt Collectors**

- New subsections added to Code Section 6306.
 - An inactive tax receivable is any outstanding assessment that the IRS includes in potentially collectible inventory if:
 - At any time after assessment, IRS removes the receivable from active inventory for lack of resources or inability to locate the taxpayer.
 - More than 1/3 of the period of the applicable statute of limitation has lapsed and the receivable hasn’t been assigned for collection to any IRS employee; OR
 - For a receivable that has been assigned for collection, over 365 days have passed with interaction with the taxpayer or a third party for purposes of furthering its collection.

113  **Budget Deal & Social Security Benefits**

- The Budget Act of 2015 made significant changes to the Social Security program that impact the payments recipients will qualify for in retirement.
- The new law eliminates several Social Security claiming strategies, which the Act refers to as “unintended loopholes”, that married couples and families used to increase their benefits.

114  **Budget Deal & Social Security Benefits**

- No More Double Claiming:
 - Some dual-earner married couples who are 66 or older (FRA) have been claiming Social Security benefits twice.
 - They first collected spousal payments worth ½ of the higher earner’s benefit amount, and then later switch to payments based on their own record, which are higher due to delayed claiming

- People who turn 62 in 2016 or later will no longer be able to claim these two types of payments at different times.
- These individuals would be allowed to claim a spousal payment OR one based on your own work record, typically whichever one is higher.

115 **Budget Deal & Social Security Benefits**

- File and Suspend
 - In the past, you could claim Social Security benefits and immediately suspend them, which allowed a spouse and sometimes dependent children to claim payments based on your work record while you continue to accrue delayed retirement credits that allow you to claim larger payments later.
 - The New legislation changed the rules so that if you suspend your Social Security payments, your spouse or children who receive payments based on your work record will no longer receive them until you start your payments again.

116 **Budget Deal & Social Security Benefits**

- File and Suspend
 - This new rule change applies to benefit suspensions submitted beginning in May, 2016.
 - People ALREADY using this strategy will be grandfathered in until age 70.

117 **Notice 2016-4, 2016-3 IRB**

- In this Notice, the IRS extended the due dates for the 2015 information reporting requirements under the ACA
 - Both for furnishing to Individuals AND filing with the IRS
 - Forms 1095-B (Health Coverage) and 1095-C (Employer-Provided Health Insurance Offer and Coverage)
 - The Notice extends the due date for furnishing both forms to individuals from February 1st to March 31, 2016.
 - For furnishing the forms to the IRS the due dates are extended from February 29, 2016 to May 31, 2016 if not filing electronically and from March 31, 2016 to June 30, 2016 if filing electronically

118 **Estate & Gift Tax Exclusions**

- Per Donee annual gift tax exclusion remains at \$14,000 for 2015
- Estate Tax exemption for decedents dying in 2015 is \$5,430,000 (\$10,860,000 for married couples) and Estate Tax rate is 40%.
- NYS Estate Tax Exemption Amount For Deaths occurring on or after:
 - April 1, 2014 & on or before March 31, 2015: \$2,062,500
 - April 1, 2015 & on or before March 31, 2016: \$3,125,000
 - April 1, 2016 & on or before March 31, 2017: \$4,187,500
 - April 1, 2017 & on or before December 31, 2018: \$5,250,000

119 **From The City of New York Department of Consumer Affairs**

- The NYC Commuter Benefits Law took effect January 1, 2016.
- Below are key dates that we should know about for covered employers:
 - January 1, 2016 – Beginning on this date, for-profit and nonprofit employers with 20 or more full-time nonunion employees in NYC MUST offer their full-time employees the opportunity to use pre-tax income to pay for their commute. Under federal law, employees can currently deduct up to \$130 per month from pre-tax income to pay for qualified transportation.

120 **From The City of New York Department of Consumer Affairs**

- Below are key dates that we should know about for covered employers:
 - July 1, 2016 – Beginning on this date, the NYC Department of Consumer Affairs (DCA) may start issuing violations to businesses that do not comply with the law.
 - The law gives employers a 6 month grace period – from January 1, 2016 to July 1, 2016 – to begin offering a commuter benefits program. Employers WILL NOT be subject to penalties during this 6-month grace period.
 - The law also provides employers 90 days to cure (correct) a violation before DCA is authorized to seek penalties.

121  **Bonus Information**

- As you know, the IRS rolled out Form 1099-K over the last few years.
- This form requires credit card companies and certain other electronic payment entities to report total receipts credited to customers.
- As a heads-up, the IRS is reminding us that payers for rents and services who are generally responsible for Form 1099-MISC reporting should NOT report payments made via credit card or “third party network transactions.”
- Obviously, to do so would be duplicating the reporting that is reflected on Forms 1099-K.
- Therefore, we should be excluding those payments from your calculations when you produce 1099-MISC.
-

122  **Finally - THE END**



Have a Great Tax Season
Get Home Safely

Statement of Specified Foreign Financial Assets

Information about Form 8938 and its separate instructions is at www.irs.gov/form8938. Attach to your tax return.

Department of the Treasury
Internal Revenue Service

For calendar year 20 or tax year beginning , 20 and ending , 20

If you have attached continuation statements, check here Number of continuation statements _____

Name(s) shown on return _____ TIN _____

Part I Foreign Deposit and Custodial Accounts Summary

1 Number of Deposit Accounts (reported on Form 8938) ▶
2 Maximum Value of All Deposit Accounts \$
3 Number of Custodial Accounts (reported on Form 8938) ▶
4 Maximum Value of All Custodial Accounts \$
5 Were any foreign deposit or custodial accounts closed during the tax year? Yes No

Part II Other Foreign Assets Summary

1 Number of Foreign Assets (reported on Form 8938) ▶
2 Maximum Value of All Assets \$
3 Were any foreign assets acquired or sold during the tax year? Yes No

Part III Summary of Tax Items Attributable to Specified Foreign Financial Assets (see instructions)

(a) Asset Category	(b) Tax item	(c) Amount reported on form or schedule	Where reported	
			(d) Form and line	(e) Schedule and line
1 Foreign Deposit and Custodial Accounts	1a Interest	\$		
	1b Dividends	\$		
	1c Royalties	\$		
	1d Other income	\$		
	1e Gains (losses)	\$		
	1f Deductions	\$		
	1g Credits	\$		
2 Other Foreign Assets	2a Interest	\$		
	2b Dividends	\$		
	2c Royalties	\$		
	2d Other income	\$		
	2e Gains (losses)	\$		
	2f Deductions	\$		
	2g Credits	\$		

Part IV Excepted Specified Foreign Financial Assets (see instructions)

If you reported specified foreign financial assets on one or more of the following forms, enter the number of such forms filed. You do not need to include these assets on Form 8938 for the tax year.

1. Number of Forms 3520 _____ 2. Number of Forms 3520-A _____ 3. Number of Forms 5471 _____
4. Number of Forms 8621 _____ 5. Number of Forms 8865 _____

Part V Detailed Information for Each Foreign Deposit and Custodial Account Included in the Part I Summary (see instructions)

If you have more than one account to report, attach a continuation statement for each additional account (see instructions).

1 Type of account Deposit Custodial 2 Account number or other designation
3 Check all that apply a Account opened during tax year b Account closed during tax year
c Account jointly owned with spouse d No tax item reported in Part III with respect to this asset
4 Maximum value of account during tax year \$
5 Did you use a foreign currency exchange rate to convert the value of the account into U.S. dollars? . . . Yes No
6 If you answered "Yes" to line 5, complete all that apply.
(a) Foreign currency in which account is maintained (b) Foreign currency exchange rate used to convert to U.S. dollars (c) Source of exchange rate used if not from U.S. Treasury Department's Bureau of the Fiscal Service

Part V Detailed Information for Each Foreign Deposit and Custodial Account Included in the Part I Summary
(see instructions) (continued)

7 a Name of financial institution in which account is maintained **b** Reserved _____

8 Mailing address of financial institution in which account is maintained. Number, street, and room or suite no. _____

9 City or town, state or province, and country (including postal code) _____

Part VI Detailed Information for Each "Other Foreign Asset" Included in the Part II Summary (see instructions)

Note. If you reported specified foreign financial assets on Forms 3520, 3520-A, 5471, 8621, or 8865, you do not have to include the assets on Form 8938. You must complete Part IV. See instructions.

If you have more than one asset to report, attach a continuation statement for each additional asset (see instructions).

1 Description of asset	2 Identifying number or other designation	
3 Complete all that apply. See instructions for reporting of multiple acquisition or disposition dates.		
a Date asset acquired during tax year, if applicable _____		
b Date asset disposed of during tax year, if applicable _____		
c <input type="checkbox"/> Check if asset jointly owned with spouse d <input type="checkbox"/> Check if no tax item reported in Part III with respect to this asset		
4 Maximum value of asset during tax year (check box that applies)		
a <input type="checkbox"/> \$0 - \$50,000 b <input type="checkbox"/> \$50,001 - \$100,000 c <input type="checkbox"/> \$100,001 - \$150,000 d <input type="checkbox"/> \$150,001 - \$200,000		
e If more than \$200,000, list value \$ _____		
5 Did you use a foreign currency exchange rate to convert the value of the asset into U.S. dollars? . . . <input type="checkbox"/> Yes <input type="checkbox"/> No		
6 If you answered "Yes" to line 5, complete all that apply.		
(a) Foreign currency in which asset is denominated	(b) Foreign currency exchange rate used to convert to U.S. dollars	(c) Source of exchange rate used if not from U.S. Treasury Department's Bureau of the Fiscal Service
7 If asset reported on line 1 is stock of a foreign entity or an interest in a foreign entity, enter the following information for the asset.		
a Name of foreign entity b Reserved _____		
c Type of foreign entity (1) <input type="checkbox"/> Partnership (2) <input type="checkbox"/> Corporation (3) <input type="checkbox"/> Trust (4) <input type="checkbox"/> Estate		
d Mailing address of foreign entity. Number, street, and room or suite no. _____		
e City or town, state or province, and country (including postal code) _____		
8 If asset reported on line 1 is not stock of a foreign entity or an interest in a foreign entity, enter the following information for the asset.		
Note. If this asset has more than one issuer or counterparty, attach a continuation statement with the same information for each additional issuer or counterparty (see instructions).		
a Name of issuer or counterparty _____ Check if information is for <input type="checkbox"/> Issuer <input type="checkbox"/> Counterparty		
b Type of issuer or counterparty (1) <input type="checkbox"/> Individual (2) <input type="checkbox"/> Partnership (3) <input type="checkbox"/> Corporation (4) <input type="checkbox"/> Trust (5) <input type="checkbox"/> Estate		
c Check if issuer or counterparty is a <input type="checkbox"/> U.S. person <input type="checkbox"/> Foreign person		
d Mailing address of issuer or counterparty. Number, street, and room or suite no. _____		
e City or town, state or province, and country (including postal code) _____		

(Continuation Statement)

Name(s) shown on return TIN

Part V Detailed Information for Each Foreign Deposit and Custodial Account Included in the Part I Summary (see instructions)

1 Type of account 2 Account number or other designation 3 Check all that apply 4 Maximum value of account during tax year 5 Did you use a foreign currency exchange rate to convert the value of the account into U.S. dollars? 6 If you answered "Yes" to line 5, complete all that apply. 7 a Name of financial institution in which account is maintained b Reserved 8 Mailing address of financial institution in which account is maintained. 9 City or town, state or province, and country (including postal code)

Part VI Detailed Information for Each "Other Foreign Asset" Included in the Part II Summary (see instructions)

1 Description of asset 2 Identifying number or other designation 3 Complete all that apply. See instructions for reporting of multiple acquisition or disposition dates. 4 Maximum value of asset during tax year (check box that applies) 5 Did you use a foreign currency exchange rate to convert the value of the asset into U.S. dollars? 6 If you answered "Yes" to line 5, complete all that apply. 7 If asset reported on line 1 is stock of a foreign entity or an interest in a foreign entity, enter the following information for the asset. 8 If asset reported on line 1 is not stock of a foreign entity or an interest in a foreign entity, enter the following information for the asset.

Information Return of U.S. Persons With Respect To Certain Foreign Corporations

(Rev. December 2015)

▶ **For more information about Form 5471, see www.irs.gov/form5471**

Department of the Treasury
Internal Revenue Service

Information furnished for the foreign corporation's annual accounting period (tax year required by section 898) (see instructions) beginning , 20 , and ending , 20

Attachment
Sequence No. **121**

Name of person filing this return	A Identifying number
Number, street, and room or suite no. (or P.O. box number if mail is not delivered to street address)	B Category of filer (See instructions. Check applicable box(es): 1 (repealed) 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/>
City or town, state, and ZIP code	C Enter the total percentage of the foreign corporation's voting stock you owned at the end of its annual accounting period _____ %
Filer's tax year beginning , 20 , and ending , 20	
D Check if any excepted specified foreign financial assets are reported on this form (see instructions) <input type="checkbox"/>	

E Person(s) on whose behalf this information return is filed:

(1) Name	(2) Address	(3) Identifying number	(4) Check applicable box(es)		
			Shareholder	Officer	Director

Important: Fill in all applicable lines and schedules. All information **must** be in English. All amounts **must** be stated in U.S. dollars unless otherwise indicated.

1a Name and address of foreign corporation	b(1) Employer identification number, if any			
	b(2) Reference ID number (see instructions)			
	c Country under whose laws incorporated			
d Date of incorporation	e Principal place of business	f Principal business activity code number	g Principal business activity	h Functional currency

2 Provide the following information for the foreign corporation's accounting period stated above.

a Name, address, and identifying number of branch office or agent (if any) in the United States	b If a U.S. income tax return was filed, enter:	
	(i) Taxable income or (loss)	(ii) U.S. income tax paid (after all credits)
c Name and address of foreign corporation's statutory or resident agent in country of incorporation	d Name and address (including corporate department, if applicable) of person (or persons) with custody of the books and records of the foreign corporation, and the location of such books and records, if different	

Schedule A Stock of the Foreign Corporation

(a) Description of each class of stock	(b) Number of shares issued and outstanding	
	(i) Beginning of annual accounting period	(ii) End of annual accounting period

Schedule E Income, War Profits, and Excess Profits Taxes Paid or Accrued (see instructions)

	(a) Name of country or U.S. possession	Amount of tax		
		(b) In foreign currency	(c) Conversion rate	(d) In U.S. dollars
1	U.S.			
2				
3				
4				
5				
6				
7				
8	Total			

Schedule F Balance Sheet

Important: Report all amounts in U.S. dollars prepared and translated in accordance with U.S. GAAP. See instructions for an exception for DASTM corporations.

Assets		(a) Beginning of annual accounting period	(b) End of annual accounting period
1	Cash	1	
2a	Trade notes and accounts receivable	2a	
b	Less allowance for bad debts	2b	() ()
3	Inventories	3	
4	Other current assets (attach statement)	4	
5	Loans to shareholders and other related persons	5	
6	Investment in subsidiaries (attach statement)	6	
7	Other investments (attach statement)	7	
8a	Buildings and other depreciable assets	8a	
b	Less accumulated depreciation	8b	() ()
9a	Depletable assets	9a	
b	Less accumulated depletion	9b	() ()
10	Land (net of any amortization)	10	
11	Intangible assets:		
a	Goodwill	11a	
b	Organization costs	11b	
c	Patents, trademarks, and other intangible assets	11c	
d	Less accumulated amortization for lines 11a, b, and c	11d	() ()
12	Other assets (attach statement)	12	
13	Total assets	13	
Liabilities and Shareholders' Equity			
14	Accounts payable	14	
15	Other current liabilities (attach statement)	15	
16	Loans from shareholders and other related persons	16	
17	Other liabilities (attach statement)	17	
18	Capital stock:		
a	Preferred stock	18a	
b	Common stock	18b	
19	Paid-in or capital surplus (attach reconciliation)	19	
20	Retained earnings	20	
21	Less cost of treasury stock	21	() ()
22	Total liabilities and shareholders' equity	22	

Schedule G Other Information

Yes No

- 1 During the tax year, did the foreign corporation own at least a 10% interest, directly or indirectly, in any foreign partnership?
If "Yes," see the instructions for required statement.
- 2 During the tax year, did the foreign corporation own an interest in any trust?
- 3 During the tax year, did the foreign corporation own any foreign entities that were disregarded as entities separate from their owners under Regulations sections 301.7701-2 and 301.7701-3 (see instructions)?
If "Yes," you are generally required to attach Form 8858 for each entity (see instructions).
- 4 During the tax year, was the foreign corporation a participant in any cost sharing arrangement?
- 5 During the course of the tax year, did the foreign corporation become a participant in any cost sharing arrangement?
- 6 During the tax year, did the foreign corporation participate in any reportable transaction as defined in Regulations section 1.6011-4?
If "Yes," attach Form(s) 8886 if required by Regulations section 1.6011-4(c)(3)(i)(G).
- 7 During the tax year, did the foreign corporation pay or accrue any foreign tax that was disqualified for credit under section 901(m)?
- 8 During the tax year, did the foreign corporation pay or accrue foreign taxes to which section 909 applies, or treat foreign taxes that were previously suspended under section 909 as no longer suspended?

Schedule H Current Earnings and Profits (see instructions)

Important: Enter the amounts on lines 1 through 5c in **functional** currency.

1 Current year net income or (loss) per foreign books of account		1		
2 Net adjustments made to line 1 to determine current earnings and profits according to U.S. financial and tax accounting standards (see instructions):	Net Additions	Net Subtractions		
	a Capital gains or losses			
	b Depreciation and amortization			
	c Depletion			
	d Investment or incentive allowance			
	e Charges to statutory reserves			
	f Inventory adjustments			
	g Taxes			
	h Other (attach statement)			
3 Total net additions				
4 Total net subtractions				
5a Current earnings and profits (line 1 plus line 3 minus line 4)			5a	
b DASTM gain or (loss) for foreign corporations that use DASTM (see instructions)			5b	
c Combine lines 5a and 5b			5c	
d Current earnings and profits in U.S. dollars (line 5c translated at the appropriate exchange rate as defined in section 989(b) and the related regulations (see instructions))			5d	
Enter exchange rate used for line 5d ▶				

Schedule I Summary of Shareholder's Income From Foreign Corporation (see instructions)

If item E on page 1 is completed, a separate Schedule I must be filed for each Category 4 or 5 filer for whom reporting is furnished on this Form 5471. This schedule I is being completed for:

Name of U.S. shareholder ▶	Identifying number ▶		
1 Subpart F income (line 38b, Worksheet A in the instructions)	1		
2 Earnings invested in U.S. property (line 17, Worksheet B in the instructions)	2		
3 Previously excluded subpart F income withdrawn from qualified investments (line 6b, Worksheet C in the instructions)	3		
4 Previously excluded export trade income withdrawn from investment in export trade assets (line 7b, Worksheet D in the instructions)	4		
5 Factoring income	5		
6 Total of lines 1 through 5. Enter here and on your income tax return. See instructions	6		
7 Dividends received (translated at spot rate on payment date under section 989(b)(1))	7		
8 Exchange gain or (loss) on a distribution of previously taxed income	8		

Yes No

- Was any income of the foreign corporation blocked?
- Did any such income become unblocked during the tax year (see section 964(b))?

If the answer to either question is "Yes," attach an explanation.

CORRECTED (if checked)

Mortgage Interest Statement

Copy B For Payer/ Borrower

The information in boxes 1 through 9 is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if the IRS determines that an underpayment of tax results because you overstated a deduction for this mortgage interest or for these points, reported in boxes 1 and 6; or because you didn't report the refund of interest (box 4); or because you claimed a non-deductible item.

RECIPIENT'S/LENDER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		*Caution: The amount shown may not be fully deductible by you. Limits based on the loan amount and the cost and value of the secured property may apply. Also, you may only deduct interest to the extent it was incurred by you, actually paid by you, and not reimbursed by another person.		OMB No. 1545-0901 2016 Form 1098
RECIPIENT'S/LENDER'S federal identification number		PAYER'S/BORROWER'S taxpayer identification no.	1 Mortgage interest received from payer(s)/borrower(s)* \$	2 Outstanding mortgage principal as of 1/1/2016 \$
PAYER'S/BORROWER'S name		3 Mortgage origination date	4 Refund of overpaid interest \$	5 Mortgage insurance premiums \$
Street address (including apt. no.)		6 Points paid on purchase of principal residence \$	7 Is address of property securing mortgage same as PAYER'S/BORROWER'S address? If Yes, box is checked <input type="checkbox"/> If No, see box 8 or 9, below	
City or town, state or province, country, and ZIP or foreign postal code		8 Address of property securing mortgage	9 If property securing mortgage has no address, below is the description of the property	
10 Other				
Account number (see instructions)				

Form **1098**

(Keep for your records)

www.irs.gov/form1098

Department of the Treasury - Internal Revenue Service