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FINANCIAL IDEAS FOR TODAY AND TOMORROW

# Footnotes

## 2016 Standard Mileage Rates Dip



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### FROM THE PEN OF A PARTNER

**H**ave you noticed the price of gas? So has the IRS – and the reimbursement rate for business mileage has gone down as a result. The new rate for 2016 is 54¢ per mile. That's a decrease of 3.5¢ from the 2015 rate of 57.5¢ per mile.

#### What do you need to do?

If you use the standard mileage rate method to pay your employees or yourself for miles driven while on

company business, update your reimbursement forms. Be sure to write your beginning-of-year odometer reading into your auto log.

Make sure your log contains the time, place, business reason and mileage for each trip too, because you'll need documentation when you file your 2016 federal income tax return. Remember that even when you use the standard mileage rate, you can still reimburse yourself or your employees for parking and tolls. Interest on your auto loan may also be partially deductible when you're self-employed and use your car in your business.

Keep track of your actual vehicle expenses, as well. Why? As long as you used

the standard mileage reimbursement method for the first year you owned your vehicle, you can switch to using actual expenses later. You can also switch back again in following years. Having the information on hand lets you figure out which method offers the most tax savings.

Other information you'll want to track: medical and moving mileage. Effective January 1, the medical rate is 19¢ per mile, down from last year's 23¢. The charitable mileage rate remains 14¢.

*Got questions? Give us a call. We'll make sure you get the best mileage from your auto deductions.*

# Congress Passes Extender and Other Tax Legislation

**T**he “extender” tax legislation passed in December made permanent many well-publicized tax deductions. Here are several you can benefit from as you prepare your personal and business federal income tax returns.

**Child Credit** You can claim this \$1,000 tax credit for each qualifying dependent child who was under age 17 at December 31. The credit, which reduces your tax dollar-for-dollar, is partly refundable but phases out as your income rises. Previously set to expire in 2017, the credit is now permanent.

**Education Benefits** The expired above-the-line deduction for higher education tuition and related expenses was retroactively extended and is now available for both 2015 and 2016. In addition, the American Opportunity Tax Credit, a credit of up to \$2,500, is now permanent. Both the deduction and the credit are subject to phase-outs as your income rises.

**State and Local Sales Tax Deduction** If you itemize, you can choose to deduct either the amounts you paid during the year for state and local income taxes, or your total state and local sales taxes. This deduction has been made permanent.

**Depreciable Property** Under Section 179, you can expense most types of otherwise depreciable real and personal property used in your business. For 2015, the maximum amount you can expense is \$500,000 of the cost of qualifying property you placed in service during the year. The \$500,000 is

reduced when the cost of the property exceeds \$2,000,000. The law made these amounts permanent. Beginning in 2016, both will be adjusted annually for inflation.

**Bonus Depreciation** In addition to Section 179, you can continue to benefit from the 50% bonus depreciation deduction for tangible personal property that you purchased and placed in service during 2015. Bonus depreciation was extended through 2019, though the percentage will decrease in 2018 and 2019.

**Straight-Line Depreciation for Certain Qualified Assets** You can continue to benefit from the 15-year straight-line depreciation deduction for qualified leasehold, restaurant and retail improvements.

**Work Opportunity Credit** Are you an employer? You may be able to claim a credit of up to 40% of first-year wages you pay to workers hired from targeted groups. The credit has been extended through 2019.

**Payroll Reporting Penalties** Beginning in 2017, small errors (generally \$100 or less) on information returns such as Forms W-2 and 1099 will not trigger an automatic penalty. However, the law also reduces the time you have to file certain Forms 1099 and W-2 with the IRS and the Social Security Administration. Beginning with 2016 forms – the ones you’ll file in January, 2017 for 2016 payments – these returns are due



January 31, the same date a copy is due to employees or other payees. The new due date applies to both paper and electronically filed 2016 Forms W-2 and W-3 and Forms 1099-MISC that report nonemployee compensation in box 7.

**Truncated Social Security Numbers** The act requires employers to include an “identifying number” for each employee, rather than the employee’s Social Security number on Form W-2. This will allow Treasury to issue regulations permitting use of a truncated Social Security number on Form W-2.

**Residential Energy Credit** You can claim a 10% energy credit for qualified improvements (up to a lifetime maximum of \$500) when you improve your home with insulation, windows and certain roofs. The credit is available for 2015 and 2016.

**Commercial Building Energy Deduction** The above-the-line deduction for energy efficiency improvements to lighting, heating, cooling, ventilation and hot water systems in your commercial building is available for 2015 and 2016.



## Budget Act Changes Social Security

**T**he Bipartisan Budget Act of 2015 made two changes to social security benefit strategies.

**“FILE AND SUSPEND”** was a way for married couples to allow the higher earning spouse to claim benefits at full retirement age but suspend the benefits until a later date. Under the Act, this strategy will no longer be available after April 30, 2016.

**“RESTRICTED APPLICATION”** applied to married couples who had reached full retirement age and who were eligible for both a spousal benefit and a personal retirement benefit. These couples could file a restricted application for spousal benefits only, then delay applying for personal retirement benefits. If you'll turn 62 after 2015, the Act eliminated the ability to file a restricted application for only spousal benefits. However, if you were already 62 or older in 2015, you can continue to use the restricted application method for spousal benefits, but only upon reaching full retirement age.

# Interest Rate Changes Affect Your Financial Choices

**F**or almost the entire past decade, interest rates held steady at near-zero levels. Then, in mid-December, 2015, the Federal Reserve raised rates by one-quarter percentage point. Market watchers and economists expect further rate increases in the coming months. How will you be affected?

Technically speaking, only the federal funds rate – the short-term rate that credit-worthy banks and credit unions use to lend each other money – was adjusted in December. Even so, any interest rate revisions can cause a ripple effect throughout the economy. Accordingly, the Federal Reserve's actions probably will exert at least a moderate influence over financial choices you may make at home and in your business in 2016 and beyond.



## SAVINGS AND DEBT

For example, as a consumer, you stand to gain from rising interest rates because you'll likely earn a better return on your deposits. Over the last ten years, placing your money in a certificate of deposit or passbook savings account has been hardly more profitable than stuffing it under a mattress. On the other hand, the cost of borrowing money will likely

increase. As a result, mortgages, car loans and credit cards will demand higher interest rates. That's not a big deal if you're already locked into low-interest fixed-rate loans. But if you have a variable rate loan or carry balances on your credit cards, you may find your monthly payments climbing upward.

## INVESTMENTS

On the investment front, market volatility may increase because rate increases are not completely predictable. Market sectors will likely exhibit varied responses to changes in interest rates. Those sectors that are less dependent on discretionary income may be less affected – after all, you need to buy gas, clothes and groceries regardless of changes in interest rates.

As you adjust your financial plan, you might only need to make minor changes. Staying the course with a well-diversified retirement portfolio is still a prudent strategy. However, you may want to review your investment allocations and your overall financial plan. Contact our office to find out how we can help.

## BUSINESS

Rising interest rates can also affect your business. If your company's balance sheet is loaded with variable-rate debt, rising interest rates can affect your bottom line and your plans for growth. As the cost of borrowing increases, taking out loans for new equipment or financing expansion with credit may become less desirable.

*Contact our office with your questions. We'll help decide the most beneficial response to current and potential future changes in interest rates.*



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*I changed my password everywhere to “incorrect.” That way when I forget it, it always reminds me, “Your password is incorrect.”*

- ANONYMOUS

We become what we think about.

- EARL NIGHTINGALE

## NOTABLE QUOTES

There are two ways to live your life. One is as though nothing is a miracle. The other is as though everything is a miracle.

- ALBERT EINSTEIN

**I’m not afraid of death; I just don’t want to be there when it happens.**

- WOODY ALLEN

By working faithfully for eight hours a day, you may eventually get to be boss and work twelve hours a day.

- ROBERT FROST

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