Supplement to J.K. Lasser's Small Business Taxes 2016

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The tax law is not static, and there have been a number of changes affecting 2015 returns, as well as taxes in 2016. Since publication of the 2016 edition of *J.K. Lasser's Small Business Taxes*, Congress has enacted the Protecting Americans from Tax Hikes Act ("PATH Act," which is also referred to as extender legislation). The courts and the IRS have also made decisions and rulings on many tax items that can impact your 2015 return. Here are key developments, some of which could affect your 2015 return as well as tax planning for 2016.

The changes presented in this Supplement are tied to the chapters in the book.

Chapter 1—Business Organization

Examples of tax definitions of small business. For 2015, for purposes of the first-year expense election, the tax definition means equipment purchases of no more than $2.5 million (the expensing limit of $500,000 is phased out for purchases between $2 million and $2.5 million). The limit on equipment purchases for 2016, the $500,000 deduction limit and $2 million threshold can be indexed for inflation.

For 2016, small businesses that have qualified research expenses can use the research credit as an offset to their Social Security taxes up to $250,000 rather than as an offset to tax liability. A small business for this purpose is a corporation or partnership with gross receipts of less than $5 million for the current year and with no gross receipts for any taxable year preceding the 5-year period ending with the current year.

Forms and schedules. Because of the late enactment of extender legislation, the IRS had not updated many of its forms and schedules for the 2015 return. Find final versions of forms and schedules at www.irs.gov/Forms-&-Pubs.

Chapter 2—Tax Year and Accounting Method

Small inventory-based business exception. Businesses maintaining inventory must use the accrual method of accounting unless they qualify to use the small inventory-based business exception. Relying on this exception allows businesses to treat inventory purchases as purchases of non-incidental material and supplies. This means the cost of the inventory is deducted when items are paid for or used, whichever comes later. (This is a clarification to the book, which failed to indicate the later of these actions.)

Chapter 4—Income or Loss from Business Operations

Income from farming. The IRS has extended the livestock replacement period for certain drought-affected areas. Counties eligible for this treatment for 2015 can be found in Notice 2015-69.

Built-in capital gains for S corporations. The built-in gains period, in which sales of certain appreciated property trigger tax at the corporate level, is permanently set at 5 years as a result of the PATH Act.

Limit on business losses—S corporations. If an S corporation donated appreciated property to charity in 2015, the shareholder reduces his or her basis by the allocable share of the property's adjusted basis (not their share of the corporation's charitable deduction based on the property's fair market value). The PATH Act has made this rule permanent.

Chapter 5—Capital Gains and Losses

Sales of qualified business stock—excluding gain. The 100% exclusion applies for stock issued after September 27, 2010. The PATH Act has made this rule permanent. To qualify for the exclusion, qualified small business stock must be held more than 5 years. Because of this holding period, qualified small business stock acquired before September 28, 2010, and sold in 2015 may qualify for a 50% or 75% exclusion, depending on the acquisition date.

Chapter 7—Employee Compensation

Adoption assistance. For planning purposes, the dollar limit on the exclusion for employer assistance for adoption costs in 2016 is $13,460.

Flexible spending accounts for medical expenses. For planning purposes, the maximum elective deferral to medical FSAs in 2016 is $2,550, which is unchanged from 2015.

Employee use of company car. For planning purposes, in valuing employee use of a company car in 2016, the IRS standard mileage rate is 54¢ per mile (down 3.5¢ per mile from the 2015 rate). If the IRS standard mileage rate is used in 2016, the basis of the vehicle must be reduced by 24¢ per mile (the same reduction rate as in 2015).

Employers using the cents-per-mile valuation rule for employee use of a company car can do so in 2016 only if the value of the car on the first day it is made available to the employee does not exceed $15,900 ($17,700 for a truck or van). If the fleet valuation rule is used, the maximum value is $21,200 ($23,100 for a truck or van).

The fixed and variable rate allowance (FAVR) in 2016 is limited to a standard automobile cost not exceeding $28,000 ($31,000 for trucks and vans).

Identity theft protection. If your company's computer data has been hacked and you offer employees identity theft protection services (e.g., credit reports and credit monitoring, identity theft protection insurance, identity theft restoration services), the benefit is a tax-free fringe benefit. The amount does not have to be reported on W-2s. However, if you offer identity theft protection as a fringe benefit without having been hacked, the benefit is taxable to employees and subject to employment taxes.

Qualified transportation fringe benefits. Parity between the exclusion for free parking and the exclusion for commuter passes and vanpooling (collectively called transportation fringe benefits) was extended retroactively for 2015; the PATH Act makes parity permanent. As a result, the exclusion for a transportation fringe benefit is $250 per month in 2015 and $255 per month in 2016. The exclusion for bicycle assistance remains unchanged at $20 per month.

Employers must use the restored parity amount for transit passes and vanpooling provided in 2015. This means that the correct amount must be reflect on employees' W-2s (furnished to employees in 2016) and on the employers' Form 941 for the fourth quarter of 2015 (filed in 2016).

Work opportunity credit. The credit, which expired at the end of 2014, has been retroactively extended for 2015. The extension of this credit runs through 2019.

The IRS has yet to issue guidance on what employers must do to meet the requirement of submitting Form 8850, *Pre-Screening Notice and Certification Request,* to the state workforce agency within 28 days of hiring a worker; this time period has long expired for some new employees. In the past, when a similar situation arose, the IRS gave employers additional time in the following year to submit the forms in order to take the tax credit on their return. Check for IRS relief in the matter.

Starting in 2016, there is a new targeted group for the long-term unemployed. This includes a person who has been unemployed for at least 27 weeks.

Empowerment zone employment credit. The 20% credit for hiring certain workers, which had expired at the end of 2014, has been retroactively extended for 2015. The PATH Act extended this credit through 2016.

Indian employment credit. The 20% credit for hiring certain employees, which had expired at the end of 2014, has been retroactively extended for 2015. The PATH Act extended this credit through 2016.

Employer wage credit for activated workers. The credit for wage differential payments by small employers made to employees called to active duty, which had expired at the end of 2014, has been retroactively extended for 2015. The PATH Act made this credit permanent.

Employment tax credits in all businesses. As noted above, the following credits apply for 2015 returns: Employer wage credit for activated reservists, empowerment zone credit, Indian employment credit, and the work opportunity credit.

Chapter 8—Travel and Entertainment Expenses

Business travel per diem rates. The maximum federal per diem rate for travel starting October 1, 2015, through September 30, 2016, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS), in most locations is $140 per day ($89 for lodging and $51 for M&IE). These rates are higher than the prior 12-month period when the rate was $129 per day ($83 for lodging and $46 for M&IE). The per diem rates for travel to certain areas have been increased. These rates can be found at www.gsa.gov (click on Per Diem Rates).

The high-low substantiation rates for areas within CONUS for the period October 1, 2015, through September 30, 2016, are $275 for travel to high-cost localities and $185 for travel to all other areas with CONUS. Of these rates, the meal portion is $68 for high-cost areas and $57 for all other areas within CONUS. The list of high-cost areas has been changed (see Notice 2015-63 for details). The meal allowance for transportation industry workers is $63 per day within CONUS and $68 per day outside of CONUS.

Chapter 9—Car Expenses

Section 179 deduction. The $500,000 limit (with the phase-out starting at $2 million) was extended retroactively for 2015. The PATH Act has made these dollar amounts permanent. However, starting in 2016, they can be adjusted for inflation.

The first-year dollar limit for 2015 (see Table 9.5) reflects an $8,000 additional amount for new vehicles used over 50% for business because of bonus depreciation.

The official numbers for the first-year dollar limits for passenger cars placed in service in 2016 are not yet available, but are projected to be the same as in 2015: $3,160 for the first year ($11,160 for a new car used over 50% for business); $5,100 for the second year; $3,050 for the third year; and $1,875 for each year thereafter. For light trucks and vans placed in service in 2016, the limits are projected to be higher for all years other than the third year; the limits are $3,560 for the first year ($11,560 if the vehicle is new and used over 50% for business); $5,700 for the second year; $3,350 for the third year; and $2,075 for each year thereafter. Check with the IRS for final dollar limits for 2016.

Standard mileage rate. The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving, for 2016; it is 54¢ per mile (three and a half cents less than in 2015). This rate can also be used for reimbursement purposes under accountable plans.

Those who own their vehicles and use the standard mileage rate for 2016 must reduce the vehicle's basis by 24¢ per mile (in the same as in 2015).

Credit for electric vehicles. The credit for 2-wheel vehicles (which expired at the end of 2013), has been extended for 2015 and 2016 (but not for 2014). However, the credit for 3-wheel vehicles has not been extended. The credit for 4-wheel vehicles continues to apply for 2015.

Chapter 10—Repairs, Maintenance, and Energy Improvements

Repairs versus improvements. The IRS has created a safe harbor for repairs and remodeling of restaurants and retail establishments (which typically occurs every 5 to 7 years). At the business's election, 75% of the costs to remodel and refresh these businesses can be treated as ordinary repairs that are currently deductible. The balance of 25% of such costs must be capitalized. A listing of qualified expenses can be found in Rev. Proc. 2015-56. However, this safe harbor only applies if the business has an applicable financial statement (AFS). These include an SEC filing, an audited financial statement, or a filing with a government agency other than the SEC or IRS); most small businesses do not have an AFS and cannot use this remodel-refresh safe harbor.

Deduction for energy-efficient commercial buildings. The $1.80 per square foot deduction for commercial buildings that achieve at 50% energy-saving target has been extended retroactively for 2015; it applies as well for 2016.

Chapter 11—Bad Debts

Partially worthless debts. Business bad debts that become partially worthless can be currently deducted. However, according to the IRS Chief Council, such amounts must be charged off on the business's books to show that the business has abandoned hopes of this recovery. Merely reducing a reserve account is not sufficient for this purpose.

Chapter 12—Rents

Qualified leasehold, restaurant, and retail improvements. Various rules related to these properties had expired at the end of 2014, but the PATH Act made the following changes:

- First-year expensing can be used for qualified leasehold, restaurant, and retail improvements. For 2015, the deduction is capped at $250,000. This dollar limit is removed after 2015 and the usual limit ($500,000 as adjusted annually for inflation) will apply.
- Qualified leasehold improvements (but not restaurant or retail improvements unless they are leasehold improvements) qualify for bonus depreciation for 2015. For 2016 through 2019, bonus depreciation applies to qualified improvements, which can include restaurant or retail improvements as well as leasehold improvements, and there is no longer a requirement that the improvement be placed in service more than three years after the building was first placed in service. However, the amount of bonus depreciation will be reduced in 2018 and 2019.
- The 15-year recovery period for these properties was retroactively extended to 2015 and is now permanent.

Chapter 13—Taxes and Interest

Self-employment tax. The Social Security wage base limit, which applies for self-employment taxes, is $118,500 in 2016 (the same as in 2015). The tax rate for the Social Security portion of self-employment tax is 12.4% on net earnings up to this dollar limit. The tax rate for the Medicare portion of self-employment tax is 2.9% on all net earnings. The tax deduction from gross income is limited to one-half of the self-employment tax.

For those with net earnings over the applicable threshold amount ($200,000 for singles; $250,000 for joint filers, which are fixed in the tax law), there is also a Medicare surtax of 0.9% on excess earnings. This applies only to the so-called employee portion, so it is *not* deductible.

Employment taxes—FICA. The wage base limit for the Social Security portion of FICA in 2016 is $118,500. The rate for the employee's Social Security portion of FICA is 6.2%.

Employment taxes—FUTA tax. The Department of Labor has released its list of 2015 FUTA "credit reduction states." These are California (1.5%), Connecticut (2.1%), and Ohio (1.5%). Affected employers pay an additional FUTA amount as indicated in parentheses. For example, while the basic FUTA tax is $42 per employee ($7,000 x [6.0% basic FUTA rate – 5.4% credit for state employment taxes]), employers in Connecticut pay $189 per employee for 2015 ($7,000 x [6.0% – (5.4% -2.1%)]). The FUTA tax is fully deductible.

Chapter 14—First-Year Expensing, Depreciation, Amortization, and Depletion

First-year expensing. The expensing limit for 2015 is $500,000. The limit phases out when purchases for the year exceed $2 million. Thus, no expensing can be used if purchases for the year exceed $2.5 million. The PATH Act makes these dollar amounts permanent. However, starting in 2016, they can be adjusted for inflation.

The additional first-year expensing for property in empowerment zones has been extended retroactively for 2015 and 2016. For 2015, the dollar limit is $535,000 ($500,000 plus $35,000 additional amount for businesses in empowerment zones). For 2016, the total dollar limit may be higher if the basic $500,000 is adjusted for inflation; there is no increase in the $35,000 amount.

The opportunity to expense small film and television production costs, which expired at the end of 2014, has been extended retroactively for 2015; it will apply for 2016 as well. What's more, for 2016, theatrical productions can also qualify for this expensing rule.

15-year amortization of qualified leasehold, restaurant, and retail improvements. See Chapter 12.

Bonus depreciation. Bonus depreciation was extended retroactively for 2015; also see Chapter 12.

Computer software. Off-the-shelf software has a 3-year recovery period for 2015 (if not expensed). This treatment has been made permanent.

Modified accelerated cost recovery system—recovery periods. The 3-year recovery period for all race horses, which had expired at the end of 2014, has been extended for 2015 and 2016.

The 7-year recovery period for motorsports entertainment complexes, which had expired at the end of 2014, has been extended for 2015 and 2016.

De minimis safe harbor rule for tangible personal property. Instead of capitalizing the cost of acquiring such property and deducting it over the applicable recovery period, a business can elect to treat the costs as material and supplies. This allows them to deduct the cost immediately. For businesses without an applicable financial statement (an AFS, defined in Chapter 10), the dollar limit on this write-off for 2015 is $500 per item or invoice. For 2016, the dollar limit is $2,500 per item or invoice. (Businesses with an AFS can deduct up to $5,000 per item or invoice pursuant to a written accounting policy in effect at the start of the year.)

Using the safe harbor rule requires consistent treatment on the company books. In other words, a business that buys a tablet and opts to use the safe harbor rule cannot carry the tablet as an asset on its books (i.e., is it not included on the balance sheet). Businesses using the safe harbor rule must attach a statement to the tax return for the year of an election.

Research and experimentation costs. R&D costs can be deducted or claimed as a tax credit. The research credit, which expired at the end of 2014, has been retroactively extended for 2015 and been made permanent.

Amortization. The IRS ruled that the cost of a domain name may qualify as a Section 197 intangible, the cost of which can be deducted over 15 years. This is explained in an IRS Chief Counsel Memorandum at https://www.irs.gov/pub/irs-wd/201543014.pdf.

Chapter 16—Retirement Plans

Contribution limits. Various limits have been increased for 2016, although most remain the same as in 2015:

- 401(k) plan elective deferrals: $18,000 (plus $6,000 for those age 50 and older by December 31, 2016).
- Savings incentive match plan for employees (SIMPLE) elective deferrals: $12,500 (plus $3,000 for those age 50 and older by December 31, 2016).
- Defined contribution plans (profit-sharing plans and simplified employee pension plans [SEPs]): the limit is unchanged at $53,000.
- Defined benefit (pension) plans: the limit is unchanged at $210,000.
- Compensation taken into account in figuring contributions and benefits: the limit is unchanged at $265,000.
- IRAs: the contribution limits are unchanged for 2016 at $5,500 (plus $1,000 for those age 50 or older by December 31, 2016).

PBGC premiums. For planning purposes, in 2016 the flat-rate premium for each participant is $64. The variable rate premium for underfunded plans is $30 per $1,000 of unfunded benefits per employee, with a cap of $500 per participant.

MyRAs. The pilot program for these special savings accounts was completed in 2015 and the program went nationwide. For details on MyRAs from an employer perspective, see a notice from the Treasury at https://www.treasury.gov/press-center/press-releases/Pages/jl0250.aspx.

State-sponsored plans for the private sector. States may impose their own retirement plan requirements on employers lacking retirement plans.

California's Secure Choice Retirement Savings Trust, a mandated plan for employers with 5 or more employees, was enacted in 2013 and Illinois' Secure Choice Savings Plan, requiring automatic enrollment for companies with 25 or more employees, was signed into law on January 5, 2015. These plans are not yet active; they are waiting IRS approval before going "live." Minnesota and Oregon also have the framework for state-sponsored retirement plans but have yet to craft details.

Chapter 17—Casualty and Theft Losses

Disaster losses. Find a list of all federal disaster areas for 2015 from FEMA at https://www.fema.gov/disasters/grid/year/2015.

Chapter 18—Home Office Deductions

Mobile offices. Owners that use a mobile home or recreational vehicle (RV) in which to conduct business may or may not be able to write off some expenses, depending on the situation. Take the following cases:

- An orthopedic surgeon who parked his mobile home in the hospital driveway to be on call could deduct some costs of the vehicle, but not the 100% he had claimed.
- A consultant who used his motor home for business could deduct interest on the loan to buy the home but not for travel in it; he lacked substantiation for business travel (see Chapter 8).
- An insurance agent who took his RV to recreational vehicle rallies could not take a home office deduction because he used the RV for personal purposes for more than 14 days in the year. Any personal use, including watching TV in the RV, makes the entire day a personal day.

Chapter 19—Medical Expenses

Deducting medical insurance. The so-called employer mandate, requiring "large employers" to provide health coverage to full-time employees, took effect on January 1, 2015, for employers with 100 or more employees. The mandate for employers with 50 to 99 employees became effective on January 1, 2016. Employers failing to provide minimum essential health coverage to full-time employees and their dependents face a penalty (called the shared responsibility payment).

The IRS has made it clear that employers cannot choose to *not* set up a health plan and instead reimburse employees for their individually-obtained coverage (www.irs.gov/Affordable-Care-Act/Employer-Health-Care-Arrangements). Such action can result in a $100 per day per employee penalty. However, there has been some relief. For example, an S corporation's payment of an owner-employee's health coverage does not trigger a penalty in 2015. The IRS indicated that no penalty would apply until the IRS issued additional guidance on this matter; it has yet to be issued.

However, reimbursements for coverage under a plan providing minimum essential health coverage are not taxable to an employee and are deductible by the employer. For example, Employer X can reimburse an employee who declines coverage under X's plan in order to accept coverage under the spouse's plan with Employer Y. As long as the spouse pays for the employee's coverage on an after-tax basis, the reimbursement to the employee is tax free (it doesn't matter which employer is furnishing the coverage). However, if the spouse pays for coverage on a pre-tax basis (e.g., through a cafeteria plan), the employee is taxed on the reimbursement from X.

Small employer health care credit. Small employers that pay more than half the cost of employees' medical insurance may be eligible for a tax credit, provided they obtain coverage through the Small Business Health Insurance Option (SHOP) (government exchanges). The credit is reduced if premiums are more than the average premiums for the small group market in your state. The IRS has released the average premiums for small group markets in states for 2015 on a county-by-county basis. These average premium amounts can be found in the instructions to the 2015 Form 8941 at https://www.irs.gov/pub/irs-pdf/i8941.pdf.

Note: For tax years beginning after 2013, the credit is allowed only for two consecutive tax years, so if the small employer health care credit is claimed for 2014 and 2015, no credit will be allowed for 2016, even if other requirements for the credit are met.

Health savings accounts (HSAs). The contribution limit for 2016 is $3,350 for self-only coverage and $6,750 for family coverage. Those who are age 55 or older by the end of 2016 can add another $1,000 for the year (this additional contribution limit is unchanged).

To contribute to a health savings account, the person must be covered by a high-deductible health plan. For 2016, this means that the plan has a minimum deductible of $1,300 for self-only coverage and $2,600 for family coverage. The cap on annual out-of-pocket expenses (deductibles, co-payments, and other amounts) cannot exceed $6,550 for self-only coverage and $13,100 for family coverage.

Archer medical savings accounts (MSAs). The annual deductible in 2016 for a self-only plan is not less than $2,250 and not more than $3,350; the out-of-pocket annual expense limit is $4,450. The annual deductible for family coverage is not less than $4,450 and not more than $6,700; the out-of-pocket annual expense limit is $8,150.

Reporting health coverage on W-2s. As yet, the IRS has not changed the reporting requirements, so employers that issued fewer than 250 W-2s in the previous year do not have to report health coverage.

Reporting health coverage on 1095s. Employers with 50 to 99 employees exempt from penalty in 2015 for not providing minimum essential coverage to employees and dependents are still subject to reporting requirements. These employers must file Form 1095-C and transmit copies, along with Form 1094-C, to the IRS. Smaller employers that have self-insured plans (e.g., health reimbursement accounts) must file Form 1095-B and 1094-B transmittal.

The deadlines for filing these forms mirror the deadlines for W-2s. However, because this is the first year of such mandatory reporting, the IRS has given employers more time to act. For reporting on coverage for 2015, the notices to employees are due March 31, 2016. Transmittals are due to the IRS on May 31, 2016, if filing on paper, or by June 30, 2016, if filing electronically.

Chapter 20—Deductions for Farmers

Depreciation. The recovery period for all race horses for 2015 and 2016 is 3 years.

Chapter 21—Domestic Production Activities Deduction

Wages for a short tax year. W-2 wages are taken into account in determining the domestic production activities deduction. Temporary regulations provide guidance on figuring the amount of wages taken into account for a short tax year. A short tax year may occur, for example, when a business is acquired or disposed of.

Definition of domestic production gross receipts (DPGR). Proposed regulations clarify the meaning of this term. Previously the IRS had used a benefits and burdens of ownership test to identify whether a taxpayer could claim the deduction for contracted manufacturing activities; this test is not used in the proposed regulations.

Chapter 22—Miscellaneous Business Deductions

Moving expenses. For 2016, the standard mileage rate for driving a personal vehicle for purposes of a business-related move is 19¢ per mile.

Personal education incentives for 2016:

- ***American opportunity credit.*** The credit has been made permanent. It has been set to expire in 2017. The basic credit amount and modified adjusted gross income limit on eligibility are unchanged.
- ***Lifetime learning credit.*** The modified adjusted gross income limit on eligibility for the credit for single taxpayers is unchanged at $55,000 to $65,000. The limit increases to $111,000 to $131,000 on a joint return.
- ***Above-the-line deduction for tuition and fees.*** This break, which had expired at the end of 2014, has been extended for 2015 and 2016. The income limits for the $4,000 or $2,000 deduction are unchanged.
- ***Student loan interest.*** The modified adjusted gross income limit on eligibility for the deduction of up to $2,500 of interest is unchanged at $130,000 to $160,000 on a joint return; the limit for singles remains at $65,000 to $80,000.

Charitable contributions. Enhanced deduction for donations of food, which had expired at the end of 2014, has been extended retroactively for 2015. The deduction has been made permanent.

S corporation shareholders reduce their basis by the adjusted basis of property donated by their corporations in 2015. This break had expired at the end of 2014 but has been extended retroactively for 2015; it has been made permanent.

The enhanced deduction for conservation easements, which had expired at the end of 2015, has been extended for 2015; it has been made permanent. The enhanced deduction allows farmers and ranchers to claim a charitable contribution deduction for donations of conservation easements up to 100% of their contribution basis.

Legal and professional fees. If you win a dispute with the IRS in which the government was not substantially justified, you may be able to recover costs up to a set dollar amount. For 2016, the dollar amount is $200 per hour (unchanged from 2015).

Meal costs for day care providers. For 2016, the rates for standard meals and snack rates have been increased slightly:

Breakfast:

- States other than Alaska and Hawaii: $1.32
- Alaska: $2.11
- Hawaii: $1.54

Lunch and dinner:

- States other than Alaska and Hawaii: $2.48
- Alaska: $4.02
- Hawaii: $2.90

Snacks:

- States other than Alaska and Hawaii: $0.74
- Alaska: $1.20
- Hawaii: $0.86

Chapter 23—Roundup of Tax Credits

All of the following tax credits had expired at the end of 2014; they have been extended retroactively for 2015. Some have been further extended or made permanent.

Employment-related credits:

- ***Work opportunity credit.*** The credit has been extended through 2019. Starting in 2016, there is a new targeted category for the long-term unemployed (those unemployed for at least 27 weeks).
- ***Empowerment zone employment credit.*** The credit has been extended for 2015 and 2016.
- ***Indian employment credit.*** The credit has been extended for 2015 and 2016.

- ***Employer differential wage payment credit.*** The credit has been made permanent.

Capital construction-related credits:

- ***New markets credit.*** The credit has been extended through 2019.
- ***Energy-efficient home credit.*** The credit has been extended for 2015 and 2016.

Other tax credits:

- ***Research credit.*** The credit has been made permanent. Starting in 2016, the credit can be used as an offset to the employer's Social Security tax liability up to $250,000 rather than as an offset to income taxes. This option applies only in limited cases (as explained in detail in next year's edition of this book).
- ***Alternative fuel vehicle refueling property credit.*** The credit of up to 30% of qualified costs (up to certain dollar limits) has been extended for 2015 and 2016.

Chapter 24—Income and Deduction Strategies

Audit-proofing your return. While there is no way to completely prevent the IRS from selecting your return for audit, take care to report all income and use other measures to minimize selection.

The IRS has sent letters and paid visits to a number of tax return preparers regarding Schedule Cs, noting that a review of returns they prepared contained a high number of errors. While these letters do not impose any penalties (on preparers or their business clients), they are indicators that added scrutiny will be applied toward future Schedule Cs they prepare. Find a list of IRS Letters to Preparers at https://www.irs.gov/Tax-Professionals/IRS-Letters-and-Visits-to-Return-Preparers.

Chapter 25—Strategies for Opening or Closing a Business

Other financing—equity crowdfunding. The SEC has finalized rules for equity crowdfunding. Find details from the SEC at http://www.sec.gov/news/pressrelease/2015-249.html.

Chapter 28—Alternative Minimum Tax

Exemption amounts. The AMT exemption amounts for 2016 are slightly higher than in 2015, as shown in the following table:

Filing status	2016 exemption
Married filing jointly/surviving spouse	$83,800
Single/head of household	$53,900
Married filing separately	$41,900

Exemption phase-out. The exemption amounts for 2016 start to phase out when alternative minimum taxable income (AMTI) exceeds $119,700 for singles and heads of households, $159,700 for married filing jointly and surviving spouses, and $79,850 for married filing separately.

Start of 28% rate. The 26% AMT rate for 2016 applies to alternative minimum taxable income up to $186,300 ($93,150 for married persons filing separately); the 28% rate applies to excess taxable income over these amounts.

Chapter 29—Other Taxes

Social Security and Medicare taxes. The 2016 wage base limit for the Social Security tax portion of FICA and self-employment tax is $118,500 (unchanged from 2015). Note that the 0.9% Medicare surtax applies only to employees (and the so-called employee portion of self-employment tax).

A federal appeals court (Eighth Circuit) has held that Conservation Reserve Program (CRP) payments to non-farmers are treated as rentals from real estate and therefore are *not* self-employment income subject to self-employment tax. However, the IRS announced it would not acquiesce to the decision. This means that CRP payments to non-farmers are exempt from self-employment tax only in the Eighth Circuit unless the matter is litigated and decided the same way in other federal circuits.

Sales taxes. The Internet Tax Freedom Act, which bars states from imposing new taxes on Internet access, expired on December 11, 2015. Efforts continue in Congress to extend or make this law permanent.