CPA Client Bulletin

Smart Tax, Business & Planning Ideas *from your* Trusted Business Advisor℠

December 2015

Citation and Resource Guide

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Investing for the Long Term

- The IRS explains the tax treatment of capital gains and losses in Publication 550, Investment Income And Expenses, p. 51, at **www.irs.gov/pub/irs-pdf/p550.pdf.**

QTIP Trusts Still Offer Advantages

- The IRS provides a definition of *qualified terminable interest property* at **www.gpo.gov/fdsys/pkg/CFR-2012-title26-vol14/pdf/CFR-2012-title26-vol14-sec20-2056b-7.pdf.**

Put Cadillac Health Plans on Your Road Map

- For IRS Notice 2015-16, regarding the excise tax on high-cost employer-sponsored health coverage, go to **www.irs.gov/pub/irs-drop/n-15-16.pdf.**

Practice Development Tip

Remind Clients About Required Distributions

When you schedule year-end tax planning meetings, take a look at clients' ages. If they're 70½ or older, required minimum distributions (RMDs) will be an issue to discuss. Ask them to bring in the year-end 2014 statements from their IRAs and other tax-deferred accounts, so you can verify the amount they'll need to withdraw by December 31, 2015.

For younger clients, ask if they have parents in that age group who must take RMDs. If so, and if your clients have any doubts about their parents' likelihood of taking RMDs, ask them to bring copies of their parents' paperwork.

No matter how old clients are, ask if they've inherited a tax-deferred account and suggest a review of their RMDs for 2015. In all of these situations, mentioning the 50% penalty for any RMD shortfall may provide an incentive for clients to supply the necessary information when you meet.

At your year-end meetings, go over some fine points of RMDs with clients who'll be taking them. Explain that RMDs are based on the prior year's ending balance, but the December 31 statement might not be the final word. For example, clients must increase an IRA balance by any outstanding rollovers or recharacterized Roth IRA conversions that were not in their traditional IRA on December 31 of the previous year.

You can tell your clients who have multiple IRAs that they can take the total RMD from any combination of those accounts, so they might find it simpler to draw down only one IRA. However, 401(k) RMDs must be taken from each 401(k) account.

For some married couples, both spouses must take their own RMDs. Say John and Mary Smith both have a $10,000 RMD from their IRAs in 2015 and John takes $20,000 from his IRA, reporting the taxable withdrawal on their joint tax return. Even though the Smiths will have paid the proper amount of tax on their RMDs, Mary will still owe a $5,000 (50%) fine for the $10,000 RMD she missed.

The RMD rules are complicated, and missteps are expensive. Your clients are likely to appreciate the concern you show to help them avoid costly penalties.

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