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LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

PPC's Guide to Tax Planning for High Income Individuals

Sixteenth Edition (March 2015)

Highlights of this Edition

The following are some of the important update features of the 2015 edition of *PPC's Guide to Tax Planning for High Income Individuals*.

- **3.8% Net Investment Income Tax (3.8% NIIT).** The 3.8% NIIT is generally levied on income, above specific adjusted gross income thresholds, from interest, dividends, annuities, royalties, rents, capital gains, and passive business activities. The *Guide* has updated and expanded its coverage.
- **Achieving a Better Life Experience (ABLE) Accounts.** The 2014 ABLE Act created a new tax-advantaged account that can be used to provide assistance to a disabled person without disqualifying the individual from receiving Medicaid, SSI, or other government benefits. The *Guide* has added a section discussing the benefits of creating an ABLE account.
- **Virtual Currency.** Virtual currency (such as Bitcoins) is gaining wider acceptance in the financial community. The IRS has issued new guidance related to virtual currency. A new section has been added to the *Guide* discussing the ramifications of using virtual currency for business or investment purposes.
- **Self-insured Medical Reimbursement Plans.** A properly structured and administered self-insured medical reimbursement plan established for a self-employed owner's employee-spouse can save both income and self-employment taxes. The plan can cover the entire family so that the family's out-of-pocket medical expenses are paid with pre-tax dollars. However there are certain requirements and restrictions under the Affordable Care Act for these plans to work. The *Guide* has been updated to cover the latest guidance pertaining to such plans.
- **Allocating Retirement Plan Distributions between Pretax and After-tax Amounts.** New favorable rules have been issued regarding how to allocate retirement plan distributions that include both pretax and after-tax amounts when such distributions are directed to multiple destinations. The *Guide* has added a discussion of these rules, including a step-by-step approach for allocating such amounts.

Your *Guide* includes the following update items detailed below.

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 3 Residences and Vacation Homes	1. Discussed CCA 201310029 regarding assessment of property taxes. 2. Updated qualified mortgage interest section to include discussion of <i>Copeland</i> and <i>Puentas</i> cases, as well as CCA 201451027 regarding capitalized interest, equitable ownership, and co-ownership.	Section 301 Section 301

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	3. Noted that the mortgage insurance premium deduction was extended through 2014 and could possibly be extended again.	Section 301
	4. Added an Observation that days spent performing repairs on a vacation home do not count as days of personal use, including mention of <i>Van Malssen</i> case concerning travel days.	Section 304
	5. Noted that the nonbusiness energy property credit was extended through 2014 and could possibly be extended again.	Section 307
	6. Noted that the exclusion of income related to discharge of qualified principal residence indebtedness was extended through 2014 and could possibly be extended again.	Section 308
CHAPTER 4 Sole Proprietors and Other Business Owners	1. The Tax Increase Prevention Act of 2014 (TIPA) extended the provision allowing 50% bonus depreciation on qualified property as well as on certain qualifying leasehold and building improvements placed in service before 2015. The <i>Guide</i> has been updated to reflect the new effective date.	Section 408
	2. The <i>Guide</i> mentions Notice 2014-79 regarding automobile expenses related to the business use of an auto.	Appendix 4C
	3. Additional information on how to avoid a business being considered a hobby is provided by the courts in <i>Annuzzi</i> .	Section 402
	4. Updated discussion of self-insured medical reimbursement plans for restrictions under the Affordable Care Act.	Section 403
	5. Expanded discussion to assist shareholders to determine a reasonable salary from an S corporation.	Section 403
	6. The <i>Guide</i> has added a discussion of CCA 201436049 regarding LLC members not treated like limited partners for SE purposes.	Section 403
	7. In <i>Miller</i> , a TC Summary Opinion elaborates on <i>de minimis</i> personal use for a home office deduction.	Section 405
	8. TIPA clarifies the amount of the basis reduction for the new qualified plug-in electric drive motor vehicles (NQPEDMVs). The <i>Guide</i> has been updated to reflect this clarification.	Section 409
CHAPTER 5 Executive Compensation	1. To receive preferential tax treatment on restricted stock agreements, the taxpayer must share all information with the tax practitioner as evidenced in <i>Brinkley</i> .	Section 501
	2. The <i>Guide</i> has added a discussion of CCA 201414018 and Rev. Rul. 2012-19 regarding restricted stock units (RSUs) and dividend equivalent units (DEUs).	Section 501
	3. The <i>Guide</i> mentions Notice 2014-79 regarding automobile expenses related to executive moving expenses.	Section 509
CHAPTER 6 Stocks, Bonds, and Other Financial Investments	1. TIPA extended the provision allowing 100% exclusion of the gain on qualified small business stock to stock purchased before 2015. The <i>Guide</i> has been updated to reflect the new effective date.	Sections 601 and 605
	2. The <i>Guide</i> has added discussion of CCA 201423019 regarding whether a partnership's activities can grant dealer status to the individual partners.	Section 606
	3. The <i>Guide</i> mentions Rev. Proc. 2014-45 regarding when floating-NAV money market funds may not be subject to the wash sale rules.	Section 607

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	4. Virtual currency, such as the Bitcoin, is increasing in popularity. The <i>Guide</i> has added a new section discussing the tax treatment of virtual currency.	Section 611
	5. The <i>Guide</i> has enhanced its coverage of the 3.8% net investment income tax by: <ol style="list-style-type: none"> Adding a reference to Rev. Proc. 90-56 to help classify gray area income. Adding a discussion of treatment of gains attributable to previously unrecognized net unrealized appreciation in employer securities distributed from a qualified plan. Adding an example for the treatment of self-charged interest. Adding a discussion of the treatment of annuities associated with a nonqualified deferred compensation plan under IRC Sec. 409A. Adding a discussion of the treatment of self-rental income. Enhancing the discussion of gain or loss from the sale of a pass-through entity. 	Section 615
CHAPTER 7 Real Estate Investments	1. Added discussion of the <i>Allen</i> case regarding number, frequency, and substantiality of sales in determining dealer status.	Section 702
	2. Added an Observation on methods to establish owner's intent to be a dealer or an investor.	Section 702
	3. Mentioned CCA 201427016 regarding the effect of a real estate dealer not making an election to combine properties on passive activity tests.	Section 704
	4. Mentioned new tangible property regulations on partial disposition of assets issued in August 2014.	Section 706
	5. Added a Caution on the de-coordination of Coordinated Issue Papers in the area of identifying land improvement costs.	Section 706
	6. Noted that the increased Section 179 deduction and its availability for certain real property and 179D deduction for certain real property expired at the end of 2014, but may be extended.	Section 707
	7. Mentioned <i>Blangiardo</i> case on use of a related party as a qualified intermediary.	Section 710
CHAPTER 8 Funding College Costs	1. The tuition and fees deduction expired at the end of 2014. The <i>Guide</i> has been updated to reflect this expiration, as well as noting that, based on history, the deduction might be extended to 2015.	Section 801
	2. Under TIPA, account owners or designated beneficiaries of QTPs may change the investment strategy of an account up to two times per year under IRC Sec. 529.	Section 804
CHAPTER 9 Charitable Giving	1. Added reference to the <i>Alli</i> case regarding total disallowance of a charitable deduction when qualified appraisal requirements were not met.	Section 901
	2. Added discussion of the <i>Mitchell</i> case concerning a conservation easement that was denied because the mortgage on the easement was subordinated after the land was donated to a qualified charity.	Section 901
	3. Noted that the provision for the 100% limitation for qualified conservation contributions for farmers and ranchers has expired but potentially could be extended.	Section 902

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	4. Noted that the provision concerning special rules for contributions of capital gain real property for conservation purposes has expired but potentially could be extended.	Section 902
	5. Noted that the provision allowing tax-free direct contributions from an IRA to a qualified charitable organization has expired and mentioned the possibility of potential extension of this provision.	Section 909
CHAPTER 10 Divorce	1. Added a Caution regarding potential difficulties in same-sex divorce cases.	Section 1001
	2. Added discussion of the <i>Becker</i> case concerning partial alimony and child support payment deductibility.	Section 1003
	3. Added reference to the <i>Johnson</i> case regarding recharacterization of alimony payments to child support payments.	Section 1003
	4. Added discussion that a taxpayer cannot assign additional basis to a 401(k) distribution beyond the transferor's original basis (<i>Weaver-Adams</i>).	Section 1006
CHAPTER 11 Retirement Plans	1. Added an example showing effects of taking initial required minimum distribution (RMD) and second RMD within one year or splitting between two years.	Section 1104
	2. Added discussion of new regulations concerning the use of longevity annuity contracts within an IRA.	Section 1104
	3. Added a Planning Tip on when it may be advisable to roll over only the pretax distributions from a qualified plan.	Section 1107
	4. A new IRS notice provides favorable rules on allocating distributions between pretax and after-tax distributions. Added a new subtopic for this notice, including examples and planning tips.	Section 1107
	5. Added discussion on when the 60-day period begins for purposes of making a qualified tax-free rollover.	Section 1107
Chapter 12 Special Situa- tions	1. Added a section to discuss the new Achieving a Better Life Experience (ABLE) accounts that allow tax-free accumulation of funds to pay future disability expenses.	Section 1209
Roadmap	1. Added a planning point for establishing an ABLE account if there are significant disability-related medical expenses.	RM-4i