



FINEMAN WEST & COMPANY LLP  
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

## FINEMAN WEST & COMPANY

### September 2016 NEWSLETTER

#### Dear Clients and Friends,

In this issue of our newsletter we discuss how businesses can take advantage of the new \$2,500 deduction threshold. Also featured in this issue, information on the recent IRS changes to the "marriage penalty" for mortgage interest deduction. For more information about featured stories in this newsletter, please contact the team at Fineman West & Company.

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## IRS Change May Allow Your Business To Deduct Hundreds Of Thousands of Dollars

### \$2,500 Items Can Now Be Immediately Expensed, Which Had to Be Capitalized Before Ruling

The Internal Revenue Service is assisting qualifying businesses this year with a change to the deduction amount for business expenses from \$500 to \$2,500 each. The change applies to amounts spent by businesses to acquire, produce, or improve tangible property that would normally qualify as capital items. Businesses can now immediately deduct expenditures that would otherwise need to be spread out over a period of years through annual depreciation deductions. Items might include personal computers, smart phones, machinery and equipment, and building repairs and improvements.

For example, if a company needs to purchase 5 computers for \$1,500 each for its employees, each computer will be deducted since it falls under the \$2,500 amount limit. In order to take advantage of the new IRS safe harbor threshold, the invoice must reflect each computer listed as a single line item at \$1,500, instead of being listed as one overall item totaling at \$7,500.

The new \$2,500 threshold can be applied per item, as long as it is substantiated by an invoice. For clients that have audited financial statements, the limit is increased to \$5,000 per item.

There has to be a written accounting policy in place and an election has to be made on the tax return. There are also other rules that have to be followed. We are happy to discuss this further with our clients and look forward to speaking with you.

## Unmarried Couples to Receive Higher Mortgage Interest Deduction

In the midst of wedding season this year, the IRS increased the "marriage penalty," or the tax hits that come after couples say "I do." The IRS is now offering double the

mortgage interest deduction to unmarried co-homeowners, compared to the interest deduction available to married homeowners. Ultimately, the mortgage interest limitations will apply per individual instead of per residence. The decision on this ruling allows each taxpayer who co-owns a house to claim an interest deduction on the full \$1,100,000 of debt - given that they are not a married couple who are filing their taxes separately.

The Ninth Circuit reversed the Tax Court's decision, which issued that the \$1,100,000 limitation on qualified debt is determined on a per-taxpayer, rather than a per-household basis. This change allows same-sex unmarried or co-habituating couples to each deduct the mortgage interest on \$1.1 million of acquisition and home equity debt. Married couples filing separately must still split the \$1.1 limitation between them, as this ruling only applies to single filing tax-payers who co-own a home. Section 163(h)(3) of the tax ruling allows a deduction for qualified residence interest on up to \$1,000,000 of acquisition indebtedness and \$100,000 of home equity indebtedness. In the case of mortgage balances exceeding the limitations, the mortgage interest deduction is limited to the amount applicable to only \$1,100,000 worth of debt, which now applies to a per tax-payer basis instead of a singular household.

Take Henry and Ella for example, an unmarried couple co-owning a \$4.5 million dollar home, have a \$3.2 million mortgage. Based on the previous ruling, they could only deduct interest on a maximum debt of \$550,000 each, which is half of the \$1.1 deduction cap. Under the new ruling, both can now deduct mortgage interest on the maximum \$1.1 amount of debt.

For more information regarding this topic, please contact one of our tax professionals.

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