Dear Client:

The following is a summary of important tax developments that have occurred in the past three months that may affect you, your family, your investments, and your livelihood.

No bankruptcy exemption for inherited IRAs. A unanimous Supreme Court has held that inherited IRAs do not qualify for a bankruptcy exemption, i.e., they are not protected from creditors in bankruptcy.

Purchase of underlying property didn't prevent deduction for lease termination payment. The Court of Appeals for the Sixth Circuit has allowed a party that executed an option to buy property that it was leasing to deduct a portion of the amount tendered in the transaction as a lease termination payment. In so doing, it rejected the IRS's argument that the full amount tendered had to be capitalized as part of the purchase price.

Employer health insurance tactic may backfire. The IRS has warned of costly consequences to an employer that doesn't establish a health insurance plan for its employees, but reimburses them for premiums they pay for health insurance (either through a qualified health plan in the Marketplace or outside the Marketplace). According to the IRS, these arrangements, which are called employer payment plans, are considered to be group health plans subject to the market reforms of the Affordable Care Act. These reforms include the prohibition on annual limits for essential health benefits and the requirement to provide certain preventative care without cost sharing. Such arrangements cannot be integrated with individual policies to satisfy the market reforms. Consequently, such an arrangement fails to satisfy the market reforms and may be subject to a $100/day excise tax per applicable employee.

Qualified retirement plans and IRAs may permit purchases of "longevity" annuities. The IRS has issued regulations that allow purchases of deferred "longevity" annuities under various tax-favored retirement vehicles including 401(k) plans and IRAs. Under the regulations, retirees may use a limited portion of their retirement savings to purchase guaranteed income for life starting at an advanced age, such as 80 or 85, to address the risk of outliving their assets.

Taxpayer Bill of Rights. The IRS recently adopted a "Taxpayer Bill of Rights" to help taxpayers better understand their rights. While taxpayers already had these rights, they were scattered in various provisions of the Internal Revenue Code and were unknown to many taxpayers. They are now prominently displayed on the IRS's website and fall into these 10 broad categories:

(1) the right to be informed;
(2) the right to quality service;
(3) the right to pay no more than the correct amount of tax;
(4) the right to challenge the IRS's position and be heard;

(5) the right to appeal an IRS decision in an independent forum;
(6) the right to finality;
(7) the right to privacy;
(8) the right to confidentiality;
(9) the right to retain representation; and
(10) the right to a fair and just tax system.