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# 2017 YEAR-END TAX LETTER

**INSIDE THIS ISSUE:**



### IT'S TAX TIME AGAIN…

**Once again, it's time to file and pay your taxes. Your mailbox should be filling up with the information you will need to get the job done.**

**This letter is full of information designed to help you prepare your tax documents so you will pay only the tax that you rightfully owe.**


## Time to get organized

***The following checklist will help you collect the documents needed to file your tax return. When all of the boxes are checked, you're ready.***

□ **Your last 3 years' tax returns** *(new client)*. Maybe we can amend and save money.

□ **Social Security numbers and dates of birth** are needed for all taxpayers, spouses and dependents.

□ **W-2 Forms.**

□ **Your last paycheck stub of the year** is full of information.

□ **1099 Forms for interest, dividends, retirement, Social Security, and unemployment** need to be entered correctly to comply with the IRS matching program.

□ **Property tax statements** contain important information. They list the tax (deductible) and special assessments (not deductible).

□ **Forms 1098 for mortgage interest** need to be entered as printed. The IRS cross checks.

□ **Year-end statements from investment accounts** with transaction details for the year

□ **Assets held outside the USA.** Bring statement(s). Such assets must be disclosed even if they do not generate income.

□ **Purchase and sale information,** including dates, relating to anything sold is needed. Include sales denominated in ANY type of currency (including virtual currencies like Bitcoin).

□ **Child care provider information** (name, address, SS#, amount paid) is needed for the child care credit (*even if you are reimbursed at work*).

□ **Names, addresses, and Social Security numbers** from whom you received interest, or to whom you paid interest.

□ **Bankruptcy or divorce papers** (if applicable).

□ **If you paid an individual person $600 or more for services rendered in connection with your business,** please provide their name, address, and tax ID number.

□ **Records showing income and expense for any small business or rental property you own** will be needed.

□ **If you have an investment in a Partnership, S Corporation, Estate or Trust** you will need to bring Form K-1.

□ **Bring IRA year-end statements.**

□ **Bring all other statements of income,** whether you think they are taxable or not.

□ **Forms 1098-T** amounts paid for post-secondary tuition are sent to the student. If the student is your dependent you must get it from them. Bring receipts.

□ **Forms 1099-Q** for distributions from education savings plans.

□ **Bring your records of estimated taxes paid.**

□ **Student loan interest forms 1098-E.**

□ **Adoption costs** if applicable. Also bring the legal adoption documents.

□ **Form 1098-C** for donations of automobiles or boats.

□ **Details on all noncash donations** greater than $500. Include date, place, fair market value, and original cost.


□ **If you purchased a new electric plug-in vehicle,** bring the year, make and purchase date.

□ **If you purchased solar-electric or solar water heating systems bring receipts.**

□ **Bring a voided check for direct deposit** of any refunds you expect to receive.

□ **Noncustodial parents claiming children** need a signed IRS Form 8332 to claim the child.

□ **If your mortgage was forgiven due to foreclosure,** bring Form 1099-C or 1099-A.

□ **If you bought a new home or refinanced your existing home** bring the closing papers.

□ **If you were an investor caught in a Ponzi-type scheme,** bring the details.

□ **If you received Forms 1099-K for internet or credit card sales** please bring them.

□ **Proof of health insurance is needed.** Bring Form 1095 if you received one.

□ **Health Savings Account** (HSA) **contributions and distributions.** Bring forms 5498-SA and 1099-SA.

□ **Out of pocket medical expenses** may be deductible (if large). Bring details.

*__Caution__: the IRS is very attentive to taxpayers who write off local travel costs.*

*A daily log of business use is essential. Also, don't forget to record the beginning and the year-end odometer readings.*

*To avail yourself of tax deductions, you need to be organized and well documented.*

*Save proof of all tax deductible purchases.*


## DEDUCTING MILEAGE?

**Did you drive for charity?** If so, you can deduct **14¢** for every mile you drove.

**If your medical expenses are substantial,** you may want to calculate a mileage deduction. Medical miles for 2017 are calculated at **17¢ per mile.**

**If you drove for business purposes,** the situation is a little more complicated: First decide which miles qualify.

**Use the following three scenarios to determine how many miles you can deduct:**

Keep in mind the following statement: **In general, commuting is not deductible.**

**If you have an office or regular place of business outside your home,** you may not deduct miles commuting to and from work or to your first or from your last stop, but you may deduct mileage to drive to a *temporary work place* (less than one year's duration) and mileage to and from different work locations during the day.

**If you have an office in your home that qualifies for a home office deduction,** all of your business-related mileage is deductible.

**If you work out of your home but do not qualify for the home office deduction,** the distance between home and your first stop and between your last stop and home are nondeductible commuting miles. You should carefully plan to have your first and last stops close to home to maximize the mileage deduction.

A trip to the bank, post office, or a supplier can help increase deductible business miles.

**Once you have determined which miles to count,** you need to decide whether to use the *standard mileage* rate or actual expenses.

The ***standard mileage rate*** *for qualified business use* for 2017 is **53.5¢ per mile** (down ½ cent from 2016).

**Which method is best?**
In general, the standard method works best if your business miles are high or your vehicle is economical to run.

The actual expense method works best if your vehicle weighs over 6000 pounds, is costly to run, or you do not have that many miles in total.

## DO YOU WORK AT HOME?

***If you are self-employed***, you may qualify for the home office deduction if you use a portion of your home **exclusively** as your principal place of business, to store inventory, or to conduct substantial management or administrative activities. There can be no other fixed location where the above activities can be done.

***If you are an employee***, your home office must be required by your employer.

The office space still needs to be **used regularly and exclusively for business**. You can not have any other usage of the area whatsoever. Using your office for personal or investment reasons eliminates the deduction as far as the IRS is concerned, so be careful to keep your office space and computer usage all business.

Having a deductible home office means you can deduct all of your local business travel as described earlier, and you will not have to keep a log of computer usage because your computer will be used exclusively for business.

If your office qualifies, you will need additional information: Measure the business space and the total space. You will also need your mortgage interest, taxes, insurance, association fees, repairs, maintenance, utilities, garbage, security, and rent paid. Also, provide an accounting of the total investment in your home.

**The IRS has provided a simplified home office deduction, if you choose.** Instead of calculating all of the above information, $5 per square foot can be deducted (maximum $1,500). The IRS estimates that the new calculation will save taxpayers 1.6 million hours per year.

## COMPUTER & CELL PHONE GUIDELINES

Did you buy a computer that you would like to deduct? You can use the following guide to determine what is deductible.

***If you are an employee***, a computer must be required as a condition of employment and for the convenience of your employer to be deductible.

***If you are self-employed***, the business percentage of computer usage, measured by time, is deductible.

***If you use your computer for investments***, the business percentage of use may also be deductible if you itemize.

***If you are a student***, the use of a computer is not deductible, but you can tap your 529 plan for a computer purchase.

*Keep a log of computer usage to support your deduction.*

**Cell phone deductions are as follows:**

***Employers providing cell phones*** do not have to require records of use to provide tax-free cell phones to employees.

***Employees required to use cell phones for work*** can deduct cell phone use to the extent used for business.

***Self employed individuals*** can deduct business cell phone usage. The IRS, however, still has a hard time believing a cell phone is 100% for business. It's wise to keep a log of use.

# WHAT'S NEW FOR 2017?

There are plenty of changes to discuss. Are you affected?

**Are you a taxpayer?** Good news. The IRS' efforts to stop fraudulent refunds saved taxpayers approximately $6.5 billion.

The IRS also improved telephone customer service… 72% of callers got through to an agent in an average of 11 minutes (compared to 37% in 23 minutes in 2015).

The IRS has a new iPhone/Android app called IRS2Go that makes it easier to check your refund, make a payment, and get helpful tax tips.

The IRS is underfunded relative to historical levels. Audits are down for the fifth consecutive year (1 in 143 individual returns were audited in 2016).

The IRS workforce is aging and there aren't enough young workers to fill the void. Only 122 workers out of 77000 total IRS employees are under age 26.

**Are you applying for student financial aid?** Good news. The IRS' data retrieval tool is back online for the 2018/2019 FAFSA. It automatically fills in parts of the FAFSA form with information from your tax return. The IRS made the new tool safer by adding identity verification.

**Do you want to give to your loved ones?** The 2018 gift tax limit increases to $15k (up $1000 from 2017). That's the first increase since 2013. The $15000 limit is per donor and per recipient. That means that a married couple can give $30,000 total to each recipient and not have to file a gift tax return.

Consider this: Does your child or grandchild have a job? You may contribute to their ROTH IRA (up to $5500, but no more than earned income) as a great way to increase the tax advantages of your generosity.

**Do you help your employees pay for health insurance?** Good news. Congress acted to eliminate penalties for a popular type of pre-tax health insurance reimbursement plan. The new plans, called Qualified Small Employer Health Reimbursement Arrangements (QSEHRA), provide small employers an alternative to traditional group health insurance. Employees get to pick their own plan on the open market and employers can set-aside up to $4950 (single) or $10,000 (family) as a pre-tax company funded benefit. There are several compliance rules so work with an expert administrator.

**Do you buy health insurance on the federal or state exchanges?** The ACA (a.k.a. Obamacare) was not repealed so you can still buy insurance on the exchanges.

Open enrollment begins 11/1/17 and ends 12/15/17. Some states that run their own exchanges have a later end date.

President Trump signed an executive order to halt insurance subsidy payments. This will raise the out-of-pocket price of insurance sold on the exchanges. However, the executive order is being challenged in federal court and some lawmakers are eager to protect the subsidies. Importantly, the executive order does not affect the credit you claim on your tax return (called the Premium Tax Credit). In effect, halting the subsidies only delays when you receive the money.

**Were you uninsured in 2017?** The IRS has changed its position on so called "silent returns" that do not disclose if the taxpayer has health insurance. Last year they allowed such returns to be filed. This year they will not.

The uninsured still have to pay a penalty or qualify for an exemption. The rules and penalties for 2017 are the same as 2016.

**Do you have an nanny?** The Household Employment Tax (a.k.a. nanny tax) threshold increases to $2100 (up $100) for 2018. Always remember: Treat your nanny as an employee rather than an independent contractor to avoid tax troubles.

**Do you receive Social Security?** Social security benefit payments will increase 2% in 2018.

Medicare Part B/D costs will increase for some wealthier taxpayers. A single person making between $133,500 - $160,000 ($267,000 – $320,000 for couples) will shift into a higher cost bracket. Incomes above this level have similar shifts as well. Details can be found at medicare.gov.

**Do you have a myRA account?** The Treasury Department is phasing out the no-fee Roth IRA (called myRA) and will not accept deposits after 12/4/17. There is no tax or penalty to transfer your myRA to another Roth IRA. Visit myRA.gov to learn how.

**Do you attend a trade school?** A recent tax court ruling against a taxpayer attending dog grooming school reminds us that not all schools qualify for education tax credits. Visit the Education Department's student aid website (ifap.ed.gov) to see if your school is on the list.

**Do you have foreign accounts?** A federal appeals court upheld the Foreign Account Tax Compliance Act (FATCA) so you still have to report your foreign holdings.

**Are you a victim of hurricanes Harvey, Irma, or Maria?** You are entitled to special tax breaks including penalty free retirement account distributions, casualty loss deductions without the 10% income threshold, and 2017 Earned Income Credits based on 2016 income levels. Visit IRS.gov/newsroom for details.


Congress continues to debate tax reform and no major tax laws have been passed in 2017. None the less, there are plenty of changes in 2017 due to prior legislation, IRS rulings, and tax court cases.

*Best of all, taxes on the same income as last year are automatically lower due to indexing.*

These are only some of the highlights of the legislation, rulings, and court cases affecting your 2017 tax situation. A good tax professional can help you use these new decisions to their fullest.

Turn the page for some great year-end tax-saving tips and ideas for the future.

# YEAR-END TAX SAVING TIPS

## GIVE TO CHARITY

**Not sure of where to start?** Try charitynavigator.org for guidance.

**Short of cash? You can still make a last minute gift.** Charge your deductions on a credit card and pay later. Consider giving through www.justgive.org. You can privately give to thousands of rated charities with a credit card. Your donation goes directly to the charity, and www.justgive.org will send you a confirmation and a year-end summary to satisfy documentation requirements.

Or, better yet, you don't even have to spend money to take a charitable deduction. Clean out your closets of unwanted items to make a noncash gift. Keep in mind, the items must be in at least good condition. You should omit items of minimal value (socks and underwear), and thoroughly document the donation.

If you plan on donating a vehicle before year-end, beware of the rules. Select a charity that will either use or improve the vehicle, and you will be able to deduct *fair market value*. Otherwise your deduction will be limited to the price the charity got when they sold the vehicle. The charity will give you a 1098C documenting the contribution. The 1098C needs to be attached to your tax return.

If you have a stock or piece of property that has increased in value, you can deduct the full value and avoid paying capital gains tax by donating it to charity. If you want to give stock that has fallen in value, sell the stock, take the loss, and give the money to charity.

If you are over age $70^{1/2}$ you can give directly to charities from your IRA. The distribution counts toward your Required Minimum Distributions (RMDs).

**Keep in mind that proof of payment is needed for donations of any size.**

## CHECK YOUR TAX PAYMENTS TO AVOID PENALTIES

The IRS will charge a penalty if your tax for 2017 is less than 90% prepaid unless your payments are at least equal to last year's tax. (110% of last year's tax if your income exceeds $150,000).

You can boost your itemized deductions, and possibly save yourself from a penalty, by sending your last state estimated tax payment before December 31st or by stepping up your state withholding.

## CHECK YOUR PORTFOLIO

If you are in the 15% tax bracket or lower (gross income under $48,300 (single) or under $96,700 (married)) you may be able to sell stocks or property at a gain in 2017 and pay no Federal tax. If you are in the above tax range, or even higher if you itemize and/or have dependents, it might be wise to consider this strategy.

If you missed out on last year's credits or deductions because your income went over the limits, it might be wise to check your portfolio for some losses to reduce your income. You can offset up to $3,000 of other income with stock losses. If you wish to repurchase the stock again, wait at least 31 days to avoid wash sale rules.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

In buying mutual fund shares, avoid the year-end tax trap. Year-end dividends may include a years worth of capital gain in a large taxable payout. The value of your shares declines by the amount of payout, so you end up paying tax on profits that reduce your share value.

## SELF-EMPLOYED?

**Shelter up to 20% of your net income in a SEP retirement plan.** Besides current tax savings, money grows tax-deferred on these investments. A SEP contribution can be made up to the due date of your 2017 tax return, including extensions.

**Pay all bills already received** for operating expenses rather than deferring payment until 2018. If you need new equipment, save tax dollars now by purchasing before year-end. Remember that you can charge on a credit card and receive a current deduction.

**To channel your income into next year for a cash basis business**, you must be certain it is not constructively received. You can delay your billing to next year to defer income to 2018.

## and…THE FUTURE?

A temporary tax reform bill is very likely. Rather than getting bogged down with the details lets make a few speculations and outline tax strategies to consider.

**Speculation:** Tax rates will go down for some individuals.

- **Strategy:** Push taxable income into the future. For example, if you are planning a ROTH conversion wait until next year.
- **Strategy:** Maximize retirement and pre-tax savings now.
- **Strategy:** Increase itemized deductions if you are already itemizing. For example; give more to charity and pay state and local taxes in-full before the end of 2017.

**Speculation:** Tax rates will go down for businesses.

- **Strategy:** Increase marketing now. This is a double benefit because you deduct the expense at a higher tax rate and your future business growth creates taxable income at a lower rate.
- **Strategy:** Make asset purchases now. Be careful how much you spend though because most items greater than $2500 must be deducted over several years.
- **Strategy:** Lay the groundwork for a future new business.

*The basic strategy for year-end tax planning can be summed up in the following two statements:*

- *Channel your income into the year where it will be taxed at a lower rate.*
- *Channel your deductions to the year where your income will be taxed at a higher rate.*

*If you think that you need year-end tax planning, get in touch with a professional who knows the rules to help answer your questions.*