Tax Reform and Your Taxes

Article Highlights:

- Personal Exemptions
- Standard Deductions
- Itemized Deductions
- Medical
- Taxes
- Home Mortgage Interest
- Charity
- Casualty Losses
- Employee Business Expenses
- Tax Rates
- Child Tax Credit

Well, the Tax Cuts and Jobs Act (H.R. 1) has passed, mainly starting in 2018, and if you are confused by how this new law will impact you, you're not alone. As has become the norm for Congress, it played brinksmanship and waited to almost the end of the year, in the midst of the holidays, to pass this very extensive tax bill, providing little time for anyone to plan for 2018.

So that you have an idea about how these changes might affect individual taxpayers like yourself, we have assembled some of the key points of the new law. As a suggestion, pull out your 2016 federal return and follow along to get a better understanding of these changes.

Personal Exemptions – (See 1040 Line 42, 1040A Line 26) In the past you were able to deduct a personal exemption amount for yourself, your spouse (if married filing jointly), and anyone who you could claim as a dependent. For 2016 and 2017, that amount is $4,050. Under the new law, the deduction for exemptions has been eliminated.

Standard Deductions – (See 1040 Line 40, 1040A Line 24) Taxpayers can take a standard deduction or itemize their deductions if the itemized deductions provide a larger deduction. Under the new tax law, the standard deduction amounts are almost doubled, and the itemized deductions allowed have been scaled back. The chart below illustrates the standard deductions by filing status for 2017 and the amounts under the new law for 2018.

FILING STATUS	2017	2018
Single & Married Separate	$6,350	$12,000
Head of Household	$9,350	$18,000
Married Filing Jointly & Surviving Spouse	$12,700	$24,000
Add'l – Elderly & Blind		
Joint & Surviving Spouse	$1,250	$1,300
Others	$1,550	$1,600

Itemized Deductions – (See 1040 Schedule A) Before this change in law, taxpayers were generally able to deduct medical expenses above a percentage of their income, various state and local taxes paid, home mortgage interest, charitable contributions, casualty

losses, gambling losses to the extent of gambling winnings, and, if the total of the category was greater than 2% of their income, employee and investment expenses plus other infrequently encountered deductions. The following will look at the changes to these deductions made by the new law.

- *Medical Deductions* – (Schedule A – Line 4) Individuals can still deduct their medical expenses to the extent they exceed a percentage of their income (AGI). This income limit has been reduced from 10% to 7.5% of AGI for years 2017 and 2018 and returns to 10% in 2019.
- *Taxes* – (Schedule A – Line 9) Prior to the change in law, taxpayers were allowed to deduct state and local income taxes, or sales tax if larger, real property taxes, and certain personal property taxes. Under the new law, these taxes are still deductible, but the overall tax deduction is limited to $10,000. State income tax represented a very large deduction for many residents of states with high state income taxes, and modifying the deduction was a big bone of contention, as it was being debated in Congress.
- *Home Mortgage Interest* – (Schedule A – Lines 10-12) Under the old tax law, a taxpayer could deduct the interest on up to $1 million of acquisition debt for the purchase of the taxpayer's first and second homes. In addition, taxpayers were allowed to deduct the interest on up to $100,000 of home equity debt.

  The new law reduces the $1 million limit on home acquisition debt to $750,000 ($375,000 for married separate filers) for first and second homes, except the lower limit won't apply to indebtedness incurred before December 15, 2017. That is, the $1 million cap continues to apply to acquisition mortgages on a primary and second residence already in existence prior to December 15, 2017.

  However, starting with 2018 returns, the new law does not permit a deduction for any equity debt, which can have an adverse impact on individuals who have used their home equity to pay for costs of tuition, travel, cars, and other purposes.
- *Donations to Charities* – (Schedule A – Line 19) The new law continues to allow a deduction for charity contributions and even raises the general 50% of income (AGI) limit on charity deductions to 60%.
- *Casualty and Theft Losses* – (Schedule A – Line 20) Under the new tax law, no personal casualty losses will be allowed except those incurred in a federally declared disaster area.
- *Job Expenses and Certain Miscellaneous Deductions* – (Schedule A – Line 27) This category is no longer deductible under the new tax law.
- *Overall Limit on Itemized Deductions* – The new law suspends from 2018 through 2025 the rule requiring higher income taxpayers to phase out their total itemized deductions once their AGI exceeds certain threshold amounts.

Tax Rates – (See 1040 Line 44, 1040A Line 28) Under the new tax law, the income tax rates have been substantially modified, and the following tables can be used to determine the tax for 2018.

2018 Tax Rate Schedule – Married Filing Joint & SS

If your taxable Income is: Over -	But not over ---	The tax is:	of the amount over ---
$0	$19,050	10%	$0
19,050	77,400	$1,905 + 12%	$19,050
77,400	165,000	8,907 + 22%	77,400
165,000	315,000	28,179 + 24%	165,000
315,000	400,000	64,179 + 32%	315,000
400,000	600,000	91,379 + 35%	400,000
600,000		161,379 + 37%	600,000

2018 Tax Rate Schedule – Head of Household

If your taxable Income is: Over -	But not over ---	The tax is:	of the amount over ---
$0	$13,600	10%	$0
13,600	51,800	$1,360 + 12%	$13,600
51,800	82,500	5,944 + 22%	51,800
82,500	157,500	12,698 + 24%	82,500
157,500	200,000	30,698 + 32%	157,500
200,000	500,000	44,298 + 35%	200,000
500,000		149,298 + 37%	500,000

2018 Tax Rate Schedule – Single

If your taxable Income is: Over -	But not over ---	The tax is:	of the amount over ---
$0	$9,525	10%	$0
9,525	38,700	$952.50 + 12%	$9,525
38,700	82,500	4,453.50 + 22%	38,700
82,500	157,500	14,089.50 + 24%	82,500
157,500	200,000	32,089.50 + 32%	157,500
200,000	500,000	45,689.50 + 35%	200,000
500,000		150,689.50 + 37%	500,000

2018 Tax Rate Schedule – Married Filing Separate

If your taxable Income is: Over -	But not over ---	The tax is:	of the amount over ---
$0	$9,525	10%	$0
9,525	38,700	$952.50 + 12%	$9,525
38,700	82,500	4,453.50 + 22%	38,700
82,500	157,500	14,089.50 + 24%	82,500
157,500	200,000	32,089.50 + 32%	157,500
200,000	300,000	45,689.50 + 35%	200,000
300,000		80,689.50 + 37%	300,000

Child Tax Credit – (See 1040 Lines 52 and 67, 1040A Lines 35 and 43) The Act enhances the child tax credit (CTC) by increasing the credit per eligible child from the current $1,000 to $2,000 with up to $1,400 being refundable. The Act adds a nonrefundable non-child dependent tax credit of $500 for each dependent who does not qualify for the CTC.

The AGI thresholds at which the credit begins to phase out are substantially increased to $400,000 for married filing jointly and $200,000 for all other taxpayers, up from $110,000 for married joint, $55,000 for married separate, and $75,000 for all others.

SSN Requirement – To receive either the refundable or nonrefundable child tax credit, a taxpayer must include on the return a Social Security number that was issued before the due date of the return for the year for each qualifying child for whom the credit is claimed.

Of course, there is a lot more to the new tax law than is covered here, including some complicated business changes, such as a new deduction for qualified business income from S-Corporations, partnerships, and sole proprietorships. If you would like to schedule a tax planning appointment, please give this office a call.

Tax Reform Special Report

On Friday, December 22, 2017, the "Tax Cuts and Jobs Act" (H.R. 1) was signed into law by President Trump. Almost all of these provisions go into law January 1, 2018.

We have put together a side-by-side comparison of current law and the "Tax Cuts and Jobs Act" (H.R. 1) changes. There are numerous tax planning issues facing both individuals and business owners.

This table compares the predominate changes made by the "Tax Cuts and Jobs Act of 2017" to the tax law as it was during 2017 for individuals and small businesses.

2017	TAX CUTS & JOBS ACT (2018)
Exemptions	
$4,050	Suspended through 2025 (effectively repealed)
Standard Deductions	
Single: $6,350 Head of household: $9,350 Married filing joint: $12,700 Add'l Elderly & Blind Joint & Surviving Spouse: $1,250 Others: $1,550	Single: $12,000 Head of household: $18,000 Married filing joint: $ 24,000 Add'l Elderly & Blind Joint & Surviving Spouse: $1,300 Others: $1,600
Itemized Deductions	
Medical – Allowed in excess of 10% of AGI	Retained for 2017 and 2018 with an AGI threshold of 7.5% regardless of age. Threshold increases to 10% after 2018. 7.5% threshold also applies for AMT purposes for '17 and '18.
Taxes –Property taxes, and state and local income taxes are deductible. Taxpayers can elect to deduct sales tax in lieu of state income tax.	The deduction for taxes is retained but capped at $10,000 for the year. Foreign real property taxes may not be included. The Act prohibits claiming a 2017 itemized deduction on a pre-payment of income tax for 2018 or other future taxable year in order to avoid the dollar limitation applicable for taxable years beginning after 2017.
Home Mortgage Interest –Allows interest on $1M of acquisition debt on primary and second home and interest on $100K of home equity debt.	Allows interest on $750K of acquisition debt on primary and secondary home. Grandfathers interest on up to $1M of acquisition debt for loans prior to 12/15/2017. Repeals the deduction for home equity debt.
Charitable Contributions – Allows charitable contributions generally not exceeding 50% of a taxpayer's AGI.	Continues to allow charitable contributions and increases the 50% of AGI to 60%. Bans charitable deduction for payments made in exchange for college athletic event seating rights. Also

	repeals certain substantiation exceptions.
Gambling Losses – Allows a deduction for gambling losses not exceeding gambling income.	Continues to allow a deduction for gambling losses not to exceed the gambling income. Clarifies that "gambling losses" includes any deduction otherwise allowable in carrying on any wagering transaction.
Personal Casualty & Theft Losses – Casualty and theft losses are allowed to the extent each loss exceeds $100 and the sum of all losses for the year exceeds 10% of the taxpayer's AGI.	Suspends personal casualty losses through 2025, except for casualty losses attributable to a disaster declared by the President under Sec 401 of the Robert T Stafford Disaster Relief and Emergency Assistance Act.
Tier 2 Miscellaneous – Includes deductions for employee business expenses, tax preparation fees, investment expenses and certain casualty losses.	Suspends all tier 2 (those subject to the 2% of AGI threshold) itemized deductions through 2025.
Phase-out of Itemized Deductions – Itemized deductions are phased out for higher income taxpayers.	The phase-out is suspended through 2025.
Above-The-Line Deductions	
Teachers' Deduction – Allowed up to $250 (indexed) for classroom supplies and professional development courses.	Continues to allow this deduction.
Moving Deduction & Reimbursements – Allows a deduction for moving expenses for a job related move where the commute is 50 miles further and the individual is employed for a certain length of time. Qualified moving expense reimbursements are excluded from the employee's gross income.	Deduction is suspended through 2025 except for military change of station. Employer (other than military) reimbursement would be included as taxable wages.
Alimony – Allows the payer of alimony to claim an above-the-line deduction for qualified payments; recipient reports the income.	For divorce agreements entered into after December 31, 2018 or existing agreements modified after that date that specifically include this amendment in the modification, alimony would no longer be deductible by the payer and would not be income to the recipient.
Performing Artists Expenses – An employee with an AGI of $16,000 or less who receives $200 or more from each of two or more employers in the performing arts field can deduct their performing arts expenses that exceed 10% of AGI as an above-the-line deduction.	Retained - The House Bill would have repealed this deduction but the conference agreement retains it in its current form.
Government Officials' Expenses - An official who is paid on a fee basis as an employee of a state or local government and who pays or incurs expenses with respect to that employment may claim	Retained - The House Bill would have repealed this deduction but the conference agreement retains it in its current form.

the expenses as a deduction in calculating AGI.	
Employee Fringe Benefits	
Bicycle Commuting **–** Allows reimbursement of $20 per month as tax-free compensation	Suspended through 2025
Employer Provided Housing – Allows an exclusion from income for the costs of housing provided an employee for the convenience of the employer	Retained - The House Bill would have limited the excludable amount, but the conference agreement retains the exclusion in its current form.
Dependent Care Assistance – Allows an exclusion from gross income of up to $5,000 per year for employer provided dependent care assistance.	Retained - The House Bill would have repealed the excludable amount, but the conference agreement retains the exclusion in its current form.
Adoption Assistance – An employee can exclude a maximum of $13,570 (2017) for qualified adoption expenses paid or reimbursed by an employer. The exclusion is phased out for higher-income taxpayers.	Retained – The House Bill would have repealed the exclusion, but the conference agreement retains the exclusion in its current form.
Tax Rates	
There are seven tax brackets: 10, 15, 25, 28, 33, 35 and 39.6%.	There will continue to be seven tax brackets but at different rates and thresholds. The rates are: 10, 12, 22, 24, 32, 35 and 37%
Identifying Shares Sold	
Under current law a taxpayer who disposes of part of his shares in a corporation that were acquired at different times or for different prices is allowed to choose which shares are considered sold if they are adequately identified.	The Senate version of the bill would have required using the first-in first-out (FIFO) method of selection for which shares were sold. However, the final bill does not include that requirement.
Child Tax Credit	
Allows a credit of $1,000 per qualified child under the age of 17. The credit is reduced by $50 for each $1,000 the taxpayer's modified gross income exceeds $75K for single taxpayers, $110K for married taxpayers filing joint and $55K for married taxpayers filing separate. Taxpayers are eligible for a refundable credit equal to 15% of earned income in excess of $3,000. There is also a special refundable computation when there are 3 or more qualifying children.	Retains the "under age 17" requirement and increases the child tax credit to $2,000, with up to $1,400 being refundable per qualified child. The credit phases out for taxpayers with AGI over $200,000 ($400,000 if married joint). Thresholds are not inflation-indexed. Child must have a valid Social Security Number that is issued before the due date of the return to qualify for this credit.
Non-child Dependent Credit	
No such provision	Allows a $500 non-refundable credit for non-child dependents. Same phaseout rule as for Child Tax Credit.
Alternative Minimum Tax (AMT)	
Individuals – 2017 Exemption amounts	Retained, but the exemption amounts

are $84,500 for married taxpayers filing jointly, $42,250 for married filing separate, and $54,300 for single and head of household. The exemption phase-out thresholds are: $160,900 for married taxpayers filing jointly, $80,450 for married filing separate, and $120,700 for single and head of household.	are increased to: $109,400 for married taxpayers filing jointly, $54,700 for married filing separate, and $70,300 for single and head of household. The exemption phase-out thresholds are increased to: $1 Million for married taxpayers filing jointly and $500K for others.
Corporate	Repealed
Education Provisions	
American Opportunity Credit (AOTC) –The AOTC provides a post-secondary education tax credit of up to $2,500 per year, per student for up to four years. 40% of the credit is refundable. The credit has a phase-out threshold of $160K for MFJ filers (no credit allowed for MFS) and $80K for others.	Retained - The House Bill would have extended the credit to a fifth year, but the conference agreement retained the credit in its current form.
Lifetime Learning Credit (LLC) –LLC provides annual credit of up to $2,000 per family for post-secondary education. The credit has a phase-out threshold of $112K for MFJ filers (no credit allowed for MFS) and $56K for others.	Retained - The House Bill would have repealed the LLC, but the conference agreement retains the credit in its current form.
Coverdell Education Accounts – An annual non-deductible contribution of up to $2,000 is permitted and with tax-free accumulation if distributions are used for grammar school and above education expenses.	Retained - The House Bill would have barred any further contributions to Coverdells, but allowed a rollover to a Sec 529 plan. However, the conference agreement retains Coverdell accounts in their current form.
Sec 529 Plans – These accounts allow non-deductible contribution and provide for tax-free accumulation if distributions are used for post-secondary education expenses.	Amended to allow tax-free distributions of up to $10K per year for grammar and high school education tuition and expenses.
Discharge of Student Loan Indebtedness– Excludes from income the discharge of debt where the discharge was contingent on the student working a specific period of time in certain professions and for certain employers.	Modified to exclude income from the discharge of indebtedness due to death or permanent disability of the student.
Higher Education Interest – Allows an interest deduction of up to $2,500 for interest paid on post-secondary education loans.	Retained - The House Bill would have repealed the higher education interest deduction, but the conference agreement retains the deduction in its current form.
Tuition Deduction – Allows an above-the-line deduction for tuition and related expenses in years before 2017. The amount of the deduction is limited by AGI	Retained - The House Bill would have repealed the tuition deduction, but the conference agreement retains the deduction in its current form. This means

and the maximum deduction for any year is $4,000.	that the termination date of December 31, 2016 still applies, so this deduction would not be allowed for 2017 and later.
Employer Provided Education Assistance – An employer is permitted to provide tax-free employee fringe benefits up to $5,250 per year for an employee's education.	Retained - The House Bill would have repealed employer provided education assistance, but the conference agreement retains the assistance in its current form.
Exclusion of Qualified Tuition Reduction – Employees of educational institutions, their spouses and dependents may receive a nontaxable benefit of reduced tuition.	Retained - The House Bill would have repealed the exclusion from income of tuition reductions, but the conference agreement retains the benefit in its current form.
Exclusion for Interest on U.S. Savings Bonds used for Higher Education Expenses - Interest earned on a qualified United States Series EE savings bond issued after 1989 is excludable from gross income to the extent the proceeds of the bond upon redemption are used to pay for higher education expenses. The exclusion is phased out for higher income taxpayers.	Retained - The House Bill would have repealed the exclusion from income of U.S. savings bond interest used for higher education expenses, but the conference agreement retains the benefit in its current form.
Sec 529 – Able Account Rollovers	Distributions after 2017 from 529 plans would be allowed to be rolled over to an ABLE account without penalty, provided that the ABLE account is owned by the designated beneficiary of that 529 account, or a member of the designated beneficiary's family.
Home Sale Exclusion	
Generally, where a taxpayer owns and uses a home as his principal residence for 2 out of the 5 years prior to its sale, the taxpayer can exclude up to $250,000 ($500,000 for a married couple) of profit from the sale.	Both the Senate and House bills would have changed the qualifying period to 5 out of 8 years, and the House bill would have phased the exclusion out for higher income taxpayers. The conference agreement retains the current law.
Roth Conversion Recharacterizations	
Permits, within certain time limits, a Traditional to Roth IRA conversion to be undone.	The Act repeals the special rule that allows IRA contributions to one type of IRA (either traditional or Roth) to be recharacterized as a contribution to the other type of IRA. Thus, for example, under the provision, a conversion contribution establishing a Roth IRA during a taxable year can no longer be recharacterized as a contribution to a traditional IRA (thereby unwinding the conversion).
Estate & Gift Taxes	
$5.49 Million (2017) is exempt from gift and/or estate tax. This is in addition to	The exclusion is increased to $10 Million adjusted for inflation since 2011, which is

the annual gift tax exclusion, which for 2017 is $14,000 per gift recipient.	estimated to be approximately $11.2 Million. The annual gift tax exclusion is retained. The House Bill would have repealed the estate tax for decedents dying in 2025 or later, but the conference agreement did not include this provision.
Entertainment Expenses	
A taxpayer who can establish that entertainment expenses or meals are directly related to (or associated with) the active conduct of its trade or business, generally may deduct 50% of the expense.	No deduction is allowed for (1) an activity generally considered to be entertainment, amusement or recreation, (2) membership dues with respect to any club organized for business, pleasure, recreation or other social purposes, or (3) a facility or portion thereof used in connection with items (1) and (2). Also disallows a deduction for expenses associated with providing any qualified transportation fringe to the taxpayer's employees. Employers may still deduct 50% of the food and beverage expenses associated with operating their trade or business (e.g., meals consumed by employees on work travel).
Tax Credits	
Electric Vehicle Credit - Provides a non-refundable credit of up to $7,500 for the purchase of a qualified electric vehicle.	Retained – the House Bill originally repealed this credit, but the credit is retained in the conference agreement.
Adoption Credit– Provides a credit of up to $13,570 for child under the age of 18 or a person physically or mentally incapable of self care.	Retained – the House Bill originally repealed this credit, but the credit is retained in the conference agreement.
Sec 1031 Exchange	
There is non-recognition of gain when taxpayers trade properties of like-kind that are used for business or investment.	For exchanges completed after December 31, 2017, only real property will qualify for Sec 1031 treatment.
Real Estate Recovery Periods	
Currently real property has a MACRS recovery period of 39 years for commercial property and 27.5 years for residential rental property.	The Senate version would have shortened the recovery period for real property. However, the conference agreement retains the 27.5 and 39-year recovery periods.
Net Operating Loss (NOL) Deduction	
Generally a NOL may be carried back 2 years and any remaining balance is then carried forward until used up or a maximum of 20 years unless the taxpayer elects to forego the carryback and carry the loss forward only.	The 2-year carryback provision is generally repealed after 2017 except for certain farm losses. Beginning after December 31, 2017, the NOL deduction is limited to 80% of taxable income (determined without regard to the NOL deduction) for losses arising in taxable years beginning after

	December 31, 2017.
Sec 179 Expensing	
A taxpayer can elect to expense up to $510,000 of tangible business property, off the shelf software and certain qualified real property (generally leasehold improvements). The annual limit is reduced by $1 for every $1 over a $2,030,000 investment limit. The Sec 179 deduction for certain sport utility vehicles is capped at $25,000.	For property placed in service after 2017: The annual expensing and investment threshold limits are increased to $1,000,000 and $2,500,000, respectively, with both subject to inflation indexing. SUV cap to be inflation-adjusted. Definition of Sec 179 property expanded to include certain depreciable tangible personal property – e.g., beds and other furniture, refrigerators, ranges, and other equipment used in the living quarters of a lodging facility such as an apartment house, dormitory, or any other facility (or part of a facility) used predominantly to furnish lodging or in connection with furnishing lodging. Expands the definition of qualified real property eligible for Sec 179 expensing to include any of the following improvements to nonresidential real property placed in service after the date such property was first placed in service: roofs; heating, ventilation, and air-conditioning property; fire protection and alarm systems; and security systems.
Unlimited Expensing	
For 2017 current law allows 50% of the cost of eligible new property to be deducted with the balance of the cost depreciable. This is commonly termed "bonus" depreciation. The bonus rate is scheduled to decline to 40% for 2018, 30% for 2019 and 0% thereafter.	Allows 100% unlimited expensing of tangible business assets (except structures) acquired after September 27, 2017 and through 2022. Applies when a taxpayer first uses the asset (does not need to be new).
"Luxury Auto" Depreciation Limit	
Annual limits apply to passenger autos used for business on which depreciation is claimed. For vehicles placed in service in 2017 the limits are $3,160, $5,100, $3,050 and $1,875, respectively, for years 1, 2, 3, and 4 and later. If bonus depreciation is claimed, the first-year limitation is increased by an additional $8,000.	For passenger autos placed in service after 2017 the maximum amount of allowable depreciation is increased to the following amounts if bonus depreciation is not claimed: $10,000 for the placed-in-service year, $16,000 for the 2nd year, $9,600 for the 3rd year, and $5,760 for the 4th and later years. Amounts will be indexed for inflation after 2018.
Listed Property	
To claim a business deduction for certain types of property, referred to as listed	Computers and peripheral equipment placed in service after 2017 have been

property, enhanced substantiation requirements must be followed and deductions are only allowed if business use of the property is more than 50%. Computers have been included in this category.	removed from the definition of listed property.
Deduction For Pass-Through Income	
No such provision.	The Act provides a 20% deduction for pass-through income, limited to the greater of (1) 50 percent of wage income or (2) 25% of wage income plus 2.5% of the cost of tangible depreciable property for qualifying businesses, including publicly traded partnerships, but not including certain service providers. The limitations (both caps and exclusions) do not apply to joint filer's with income below $315K and ratably phases out between $315K and $415K, For other filers the threshold is $157K and phases out between $157K and $207K.
Excess Business Losses For Individuals	
Losses, other than passive losses, were allowed, and if a net loss was the result, a NOL deduction was created and carried back 2 years and then forward 20 years until used up.	A taxpayer other than a C corporation would not be allowed an "excess business loss." Instead, the loss would be carried forward and treated as part of the taxpayer's net operating loss (NOL) carryforward in subsequent taxable years. Excess business loss for a taxable year is defined in the Act as the excess of the taxpayer's aggregate deductions attributable to the taxpayer's trades or businesses for that year, over the sum of the taxpayer's aggregate gross income or gain for the year plus a "threshold amount" of $500,000 for married individuals filing jointly, or $250,000 for other individuals. The provision will apply after taking into account the passive activity loss rules.
Domestic Production Deduction (Sec 199)	
Sec 199 provides a deduction from taxable income (AGI in the case of an individual), equal to 9% of the lesser of the taxpayer's qualified domestic production activities income or taxable income (determined without regard to the section 199 deduction) for the taxable year. The deduction is further limited to 50% of the W-2 wages paid by the	Repealed, effective 2018

taxpayer that are allocable to domestic production gross receipts for the year.	
ACA Individual Insurance Mandate	
Anyone who does not meet one of the limited exemptions must have health insurance or pay a penalty. In the tax code this is referred to as the "shared responsibility payment." The penalty is the greater of an inflation adjusted flat dollar amount or 2.5% of the taxpayer's household income. For 2018 the flat dollar amount is $695 per adult and $347.50 per child but not more than $2,085 per family.	Repealed, effective 2019.

Divorced, Separated, Married or Widowed? Unpleasant Surprises May Await You at Tax Time

Article Highlights:

- Separated Taxpayers
- Divorced Taxpayers
- Recently Married Taxpayers
- Widowed Taxpayers
- Filing Status
- Joint and Several Liability
- Who Claims the Children
- Alimony
- Community Property States
- Affordable Care Act

Taxpayers are frequently blindsided when their filing status changes because of a life event such as marriage, divorce, separation or the death of a spouse. These occasions can be stressful or ecstatic times, and the last thing most people will be thinking about are the tax ramifications. But the ramifications are real and the following are some of the major tax complications for each situation.

Separated – Separating from a spouse is probably the most complicated life event and is certainly stressful for the family involved. For taxes, a separated couple can file jointly, because they are still married, or file separately.

- **Filing Status** – If the couple has lived apart from each other for the last 6 months of the year, either or both of them can file as head of household (HH) provided that the spouse(s) claiming HH status paid over half the cost of maintaining a household for a dependent child, stepchild or foster child. A spouse not qualifying for HH status must file as a married person filing separately if the couple chooses not to file a joint return. The married filing separate status is subject to a host of restrictions to keep married couples from filing separately to take unintended advantage of the tax laws.

In most cases, a joint return results in less tax than two returns filed as married separate. However, when married taxpayers file joint returns, both spouses are responsible for the tax on that return (referred to as joint and several liability). What this means is that one spouse may be held liable for all of the tax due on a return, even if the other spouse earned all of the income on that return. This holds true even if the couple later divorces, so when deciding whether to file a joint return or separate returns, taxpayers who are separated and possibly on the path to a divorce should consider the risk of potential future tax liability on any joint returns they file.

- **Children** – Who claims the children can be a contentious issue between separated spouses. If they cannot agree, the one with custody for the greater part of the year is entitled to claim the child as a dependent along with all of the associated tax benefits. When determining who had custody for the greater part of the year, the IRS goes by the number of nights the child spent at each parent's home and ignores the actual hours spent there in a day.

- **Alimony** – Alimony is the term for payments made by one spouse to the other spouse for the support of the latter spouse. The recipient of the alimony must include it as income, and the payer can deduct it on their separate returns. A payment for the support of children is not alimony. To be treated as alimony by separated spouses, the payments must be designated and required in a written separation agreement. Voluntary payments do not count as alimony.

- **Community Property** – Nine U.S. states – Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin – are community property states. Generally, community income must be split 50–50 between spouses according to their resident state's community property law. This often complicates the allocation of income between spouses, and they generally cannot file based upon just their own income.

Divorced – Once a couple is legally divorced, tax issues become clearer because each former spouse will file based upon their own income and the terms of the divorce decree related to spousal support, custody of children and division of property.

- **Filing Status** – An individual's marital status as of the last day of the year is used to determine the filing status for that year. So, if a couple is divorced during the year, they can no longer file together on a joint return for that year or future years. They must, unless remarried, either file as single or head of household (HH). To file as HH, an unmarried individual must have paid over half the cost of maintaining a household for a dependent child or dependent relative who also lived in the home for more than half the year (exception: a dependent parent need not live in their child's home for the child to qualify for HH status). If both ex-spouses meet the requirements, then both can file as head of household.

- **Children** – Normally, the divorce agreement will specify which parent is the custodial parent. Tax law specifies that the custodial parent is the one entitled to claim the child's dependency and associated tax benefits unless the custodial parent releases the dependency to the other parent in writing. The IRS provides Form 8332 for this purpose. The release can be made for one year or multiple years and can be revoked, with the revocation becoming effective in the tax year after the year the revocation is made.

  Most recently, family courts have been awarding joint custody. If the parents cannot

agree on who can claim a child as a tax dependent, then the IRS's tie-breaker rule will apply. This rule specifies that the one with custody the greater part of the year, measured by the number of nights spent in each parent's home, is entitled to claim the child as a dependent. The parent claiming the dependency is also eligible to take advantage of other tax benefits, such as child care credits and higher education tuition credits.

- **Alimony** – Alimony is the term for payments made by one spouse to the other spouse for the support of the latter spouse. On their respective individual returns, the recipient of the alimony must include it in their income, and the payer can deduct it. Child support payments are not alimony. Among other requirements, to be treated as alimony by divorced ex-spouses, the payments must be designated and required in the divorce decree. Voluntary payments and division of property do not count as alimony.

Recently Married – When a couple marries, their incomes and deductions are combined, and they must file as married individuals.

- **Filing Status** – If a couple is married on the last day of the year, they can either file a joint return combining their incomes, deductions and credits or file as married separate. Generally, filing jointly will provide the best overall tax outcome. But there may be extenuating circumstances requiring them to file as married separate. As mentioned earlier, married filing separate status is riddled with restrictions to keep married couples from taking undue advantage of the tax laws by filing separate returns. Best look before you leap.

- **Combining Income** – The tax laws include numerous provisions to restrict or limit tax benefits to higher-income taxpayers. The couple's combined incomes may well be enough that they'll encounter some of the higher income restrictions, with unpleasant tax results.

- **Affordable Care Act** – If one or both spouses acquired their insurance through a government marketplace and were receiving a premium supplement, their combined incomes may exceed the eligibility level to qualify for the supplement, which may have to be repaid.

Widowed - When one spouse of a married couple passes away, a joint return is still allowed for the year of the spouse's death. Furthermore, the widow or widower continues to use the joint tax rates for up to two additional years, provided the surviving spouse hasn't remarried and has a dependent child living at home. This provides some relief for the survivor, who would otherwise be straddled with an unexpected tax increase while also facing the potential loss of some income, such as the deceased spouse's pension and Social Security benefits.

If any of these situations apply to you or a family member, please call for additional details that may also apply with respect to your specific set of circumstances.

Using Online Agents to Rent Your Home Short Term? You May Be Surprised at the Tax Ramifications

Article Highlights:

- Schedule C vs. Schedule E
- Rentals of Less Than15 Days
- Rentals of 7 Days or Less
- Rentals of 8 to 30 Days
- Exception to the 30-Day Rule

If you are among the many taxpayers renting your first or second home using rental agents or online rental services that match property owners with prospective renters, such as Airbnb, VRBO and HomeAway, then you should know the IRS has special rules related to short-term rentals.

When property is rented for short periods, special (and sometimes complex) taxation rules come into play, which can make the rents excludable from taxation; other situations may force the rental income and expenses to be reported on Schedule C (as opposed to Schedule E).

If you have been renting your home or second home for short periods of time, here is a synopsis of the rules governing short-term rentals so you can prepare yourself for the upcoming tax season.

- **Rented for Fewer Than 15 Days During the Year:** If you rent your property for fewer than 15 days during the tax year, the rental income is not reportable, and the expenses associated with that rental are not deductible. However, interest and property taxes are still deductible as itemized deductions on your Schedule A.

- **Rented for an Average of 7 Days or Less:** Under normal circumstances, rentals are treated as passive activities, which are reported on a Schedule E, and net profit from the rental activity is not subject to self-employment tax. But the special rules treat short-term rentals averaging 7 days or less as a trade or business similar to that of a hotel or motel, with the income and expenses reported on Schedule C, and the profits are subject to both income tax and self-employment tax.

- **Rented for an Average of 8 to 30 Days:** Even rentals for longer than 7 days are treated as a trade or business when substantial personal services are provided to the short-term tenant. Substantial services are those that are primarily for your tenant's convenience, such as regular cleaning, changing linen, or maid service. Substantial services do not include the furnishing of heat and light, the cleaning of public areas, trash collection, and such.

  When extraordinary services are provided, the rental is treated as a trade or business and reported on Schedule C regardless of the average rental period. However, it would be extremely rare for this to apply to short-term rentals of your home or second home.

- **Exception to the Significant Services Rule** – If the personal services provided are similar to those that generally are provided in connection with long-term rentals of high-grade commercial or residential real property (such as the cleaning of public areas and trash collection), and if the rental also includes maid and linen services at

a cost of less than 10% of the rental fee, then the personal services are neither significant nor extraordinary for the purposes of the 30-day rule.

A loss from this type of activity, even when reported on your Schedule C as a trade or business, is still treated as a passive activity loss and can only be deducted against passive income. The $25,000 loss allowance that applies to some Schedule E rentals is not available for rental activities reportable on Schedule C.

It is important that you keep a record of not only the rental income from each tenant but also the duration of each rental, so the average rental term for the year can be determined. If you have questions about your rental activities, please give this office a call.

5 Things You Need to Do After Jumping Into Entrepreneurship

Congratulations! You've decided to dive into the exciting world of entrepreneurship and bring that great business idea to life. Whether you're opening a local brick-and-mortar business that your community needs, looking to grow rapidly in the next few years and get an investor, or just keep things small and solo, certain steps come next that aren't as exciting as preparing for launch, but need to be done.

Here are the five things you need to do after you've decided it's time to go from idea to delivery.

1. Choose the Right Business Entity.

How you organize your business plays a major role in taxes, bookkeeping, current and potential ownership, and overall administrative burden. While all of these considerations would need to be made regardless of the current state of the tax code, it's especially important to think about in the face of massive tax overhaul. The GOP tax reform bill has become law and many changes go into effect starting January 1, 2018.

Some owners of pass-through businesses can expect to get a bonus deduction of up to 20 percent of profits up to $157,500 for most filing statuses and $319,000 for married filing jointly. Ninety-five percent of US businesses are pass-through entities, which is a sole proprietorship, partnership, S corporation, or limited liability company (LLC) using the same tax structure as one of these entities, with the maximum income tax being 29.6 percent for pass-through income. For C corporations, the maximum corporate income tax rate is dropping from 35 percent to 21 percent.

Taxes aside, each state also treats business entities differently and may present bonuses and disadvantages you weren't aware of. For example, many small business owners reap numerous benefits from S corporations but if you're a New York City resident, you still have to pay city income tax. New York State recognizes S status but New York City doesn't. Sales tax nexus, risk management, and legal aspects are other considerations to make when choosing an entity.

Depending on your entrepreneurial goals as well as personal needs, you need to decide which entity makes the most sense for your operations. If you plan to change entities in the near future due to taking on a partner or investor, you should also factor in how the tax bill

will affect you.

2. Register your business with the appropriate state, local, and federal agencies.

When you organize your business, you may automatically be registered into your state or local agency's database after filing articles of incorporation or similar documents. Check with your local Division of Corporations or other authority to make sure that you've taken all necessary steps to register your business once you've decided which entity to go with.

If you're forming an LLC, you may need to file additional paperwork such as a publication affidavit which is when the state requires you to announce your commencement in a newspaper. This can be inexpensive or present a major cost barrier. For any "DBA" claims where you're not doing business under your actual name or business entity name, you also need to check with your county clerk regarding forms and filing fees.

For federal agencies, most of the registration has to do with hiring employees, but even if you don't plan on hiring any in the near future or ever, you still need to get an Employer Identification Number from the IRS. If you need to obtain licenses or approvals before operations commence, you also need to prioritize contacting these agencies and getting your paperwork taken care of before working with your first client.

3. Find business advisers, mentors, and peers.

You want to work with business advisers who can teach you about not just business in general, but also about the specific type of business that you're operating and your industry. A good business adviser is one that will tell you both what you're excelling at and what really needs improvement and how to achieve your business goals.

You want to find an adviser who's on the same wavelength as you, but who can also give you the benefit of their knowledge and experience for your particular industry. In seeking out mentors and professional peers, you'll want to find spaces for your profession or business type online and in person to exchange ideas and learn from each other. They're excellent ways to grow your business while learning the ropes and you'll learn the dos and don'ts of pre-launch.

4. Pick the right accounting software.

Even if you plan on outsourcing your accounting and tax responsibilities to a competent professional, you still need to have an accounting solution in place for them to work with. Jotting your expenses down on an Excel sheet can be a placeholder when you don't have that many transactions yet and haven't formally set up an entity in the very beginning, but it's not going to be a viable long-term solution.

Accounting software isn't as cost-prohibitive as it once was and there are many different products on the market meant for small business owners, solopreneurs, people who travel frequently, and even programs and apps that work in the cloud designed specially for certain industries and types of businesses. Cloud accounting programs are perfect for busy people who use multiple devices, so your accounting professional can see transactions in real time and correctly adjust them as you go.

If your business has more robust accounting needs such as inventory tracking and payroll, you need to test out the program and see if it works well for you. For most people without accounting knowledge, figuring out how to get accounting software set up can be daunting,

so you also want to see if your tax professional can help you with this or if there are training videos and courses for your software.

5. Get ready to launch!

Once you've taken care of these crucial items pre-launch, it's time to get going! You can now focus your time and energy on building a great product, finding the best staff, and cultivating a following for your brand. It's just part of the game when you own a business.

While your business entity and accounting needs might not be as exciting as putting together your website and initial marketing blasts, it's extremely important to have them sorted out beforehand so you aren't scrambling to get tax paperwork in order right when things are really taking off for you. By establishing your entity, business registration, publication affidavits, and other business-related paperwork beforehand with the help of a business adviser, you'll also have peace of mind that these things were done right the first time and you won't need to stop what you're doing to keep mailing in forms.

The journey to a successful business is definitely not an easy one. But if you've got a pre-launch roadmap and the right professionals on your side, you'll minimize your chances of dealing with irksome bureaucratic obstacles so you can focus on growing your business.

Driving For Uber Or Others? Your Tax Situation Is Unique

Article Highlights:

- 1099-K
- Schedule C
- Uber and Credit Card Fees
- Record Keeping
- Vehicle Expense Options
- Home Office
- Other Options

With tax time approaching, if you drive for Uber, Lyft or a competitor, here is some tax information related to reporting your income. You are considered self-employed and will report your income and deductible expenses on IRS Schedule C to arrive at your taxable income for income tax and self-employment tax.

Your driving income will be reported on IRS information Form 1099-K, which reflects the entire amount for your fares charged on credit cards through the Uber reporting system. So if the 1099-K includes the total charges, then it also includes the Uber fee and credit card fees, both of which are deductible by you on your Schedule C. To determine the amount of those fees, you must first add up all the direct deposits made by Uber to your bank account. Then subtract the total deposits from the amount on the 1099-K; the result will be the total of the Uber fees and credit card processing fees. If you drive for multiple services, you will have multiple 1099-Ks and deposits from multiple services. It is highly recommended that you keep copies of your bank statements for the year so you can verify deposits in case of an IRS audit.

You will also need to include in your income any cash tips you received that were not

charged through Uber. You should keep a notebook in your vehicle where you can record your cash tips. Having a contemporaneously maintained tip logbook is important in case of an audit.

Your largest deduction on your Schedule C will be your vehicle expenses. The first step in determining the deduction for the business use of a vehicle is to determine the total miles the vehicle was driven, and then, of the total miles, the number of deductible business miles and non-deductible personal miles. Recording the vehicle's odometer reading at the beginning of the year and again at year-end will give you the information needed to figure total miles driven during the year. Although the Uber reporting system provides you with the total fare miles, it does not include miles between fares, which are also deductible. Thus it is important that you maintain a daily log of the miles driven from the beginning of your driving shift to the end of the shift. The total of the shift miles driven will be your business miles for the year. If you know the business miles driven and total miles driven, you can determine the percentage of vehicle use for business, which is used to determine what portion of the vehicle expenses are deductible.

You may use the actual expense method or an optional mileage method to determine your deduction for the use of the vehicle. If you choose the actual expense method in the first year you use the vehicle for business, you cannot switch to the optional mileage method in a later year. On the other hand, if you choose the optional mileage rate in the first year, you are allowed to switch between methods in future years, but your write-off for vehicle depreciation is limited to the straight line method rather than an accelerated method. For 2017, the optional mileage rate is 53.5 cents per mile. The IRS generally only adjusts the rate annually. If using the optional mileage rate, you need not track the actual vehicle expenses (but you still need to track the mileage).

The actual expense method includes deducting the business cost of gas, oil, lubrication, maintenance and repairs, vehicle registration fees, insurance, interest on the loan used to purchase the vehicle, state and local property taxes, and depreciation (or lease payments if the vehicle is leased). The business cost is the total of all these items multiplied by the business use percentage. Since the vehicle is being used to transport persons for hire, it is not subject to rules that generally limit depreciation of business autos, allowing for substantial vehicle write-off in the first year where appropriate. However, if you converted a vehicle that was previously used only personally, the depreciation will be based upon the lower of cost or current fair market value, and no bonus depreciation will allowed unless the conversion year was the same year as the purchase year.

Other deductions would include cell phone service, liability insurance and perks for your fares, such as bottled water and snacks. Depending on your circumstances, you may qualify for a business use of the home (home office) deduction. However, to qualify, the home office must be used **exclusively** in a taxpayer's trade or business on a **regular**, continuing basis. A taxpayer must be able to provide sufficient evidence to show that the use is regular. Exclusive use means there can be no personal use (other than de minimis) at any time during the tax year. The office must also be the driver's **principal place of business**.

Uber provides its drivers with detailed accounting information, and the only significant additional record keeping required is the miles traveled between fares, which is accomplished while in the vehicle. So justifying a home office is problematic. Even a portion of the garage where the vehicle is parked could qualify, but the use must be exclusive, which means the vehicle must be used 100% for business.

As a self-employed individual, you also have the ability to contribute to a deductible self-

employed retirement plan or an IRA. Also, being self-employed gives you the option to deduct your health insurance without itemizing your deductions. However, these tax benefits may be limited or not allowed if you are also employed and participate in your employer's retirement plan or if your employer pays for 50% or more of your health insurance coverage.

If you have additional questions about reporting your income and expenses, or the vehicle deduction options, please give this office a call.

Sold Your Home Last Year? Thinking of Selling? Read This!

Article Highlights:

- Home Sale Exclusion
- 2 out of 5 Rule
- Business Use of the Home
- Gain or Loss from a Sale
- Previous Use as a Rental
- Records

If you sold your home last year, or if you are thinking about selling it, you should be aware of the many tax-related issues that could apply to that sale so that you will be prepared at tax time and not have to deal with unpleasant surprises. This article covers home sales and the home-sale gain exclusion, particularly when that gain exclusion applies and what portion of it applies. Certain special issues always affect home sales, such as the use of a portion of the home as an office or daycare center, previously use of the property as a rental, and acquisition in a tax-deferred exchange. Other frequently encountered issues are related to the "2 years out of 5" rules for ownership and use, as these rules must be followed to qualify for gain exclusion.

Home Sale Exclusion - Generally, the tax code allows for the exclusion of up to $250,000 ($500,000 for married couples) of gain from the sale of a primary residence if you lived in it and owned it for at least 2 of the 5 years immediately preceding the sale. You also cannot have previously taken a home-sale exclusion within the 2 years immediately preceding the sale. There is no limit on the number of times you can use the exclusion as long as you meet these time requirements. However, extenuating circumstances can reduce the amount of the exclusion. The home-sale exclusion only applies to a primary residence, not to a second home or a rental property.

2 out of 5 Rule – To qualify for the home-sale gain exclusion, you must have used and owned the home for 2 out the 5 years immediately preceding the sale. If you are married, both you and your spouse must meet the use requirement, but only one of you needs to meet the ownership requirement. Vacations, short absences and short rental periods do not reduce the use period. When only one spouse in a married couple qualifies, the maximum exclusion is limited to $250,000 instead of $500,000. Although this situation is quite rare, if you acquired the home as part of a tax-deferred exchange (sometimes referred to as a 1031 exchange), then you must have owned the home for a minimum of 5 years before the home-gain exclusion can apply.

Some provisions allow you to reduce your gain by a prorated amount if you were required to

sell the home because of extenuating circumstances such as a job-related move, a health crisis or other unforeseen events. Another rule extends the 5-year period to account for the deployment of military members and certain other government employees. Please call this office if you have not met the "2 out of 5" rule to see if you qualify for a reduced exclusion.

Business Use of the Home – If you used your home for business—for instance, by claiming a tax deduction for a home office, storing inventory in the home or using it as a daycare center—that deduction probably included an amount to account for the home's depreciation. In that case, up to the extent of the gain, the claimed depreciation cannot be excluded.

Figuring Gain or Loss from a Sale – The first step is to determine how much the home cost, combining purchase price and the cost of improvements. From this total cost, subtract any claimed casualty losses and any depreciation taken on the home. The result is your tax basis. Next, subtract the sale expenses and this tax basis from the sale price. The result is your net gain or loss on the sale of the home.

If the result is negative, the sale is a loss. However, losses on personal-use property such as homes cannot be claimed for tax purposes.

If the result is a gain, however, subtract any home-gain exclusion (discussed above) up to the extent of the gain. This is your taxable gain, which is, unfortunately, subject to income tax and possibly to the net-investment income tax as well. If you owned the home for at least a year and a day, the gain will a be a long-term capital gain; as such, it will be taxed at the special capital-gains rates, which range from zero for low-income taxpayers to 20% for high-income taxpayers. Depending on the amount of your income, the gain may also be subject to the 3.8% net investment income surtax that was added as part of the Affordable Care Act. The tax computation can be rather complicated, so please call this office for assistance.

Another issue that can affect your home's tax basis (discussed above) applies if you owned your home before May 7, 1997 and purchased it after selling another home. Prior to that date, instead of a home-gain exclusion, any gain from a sale was deferred to the replacement home. Although this is now rare, if it matches your situation, the deferred gain would reduce your current home's tax basis and add to any gain.

Another Twist – If you previously used your home as a rental property, the law includes a provision that prevents you from excluding any gain attributable to the home's appreciation while it was a rental. The law's effective date was the beginning of 2009, which means that you only need to account for rental appreciation starting in that year. This law was passed to prevent landlords moving into their rentals for 2 years so that they could exclude the gains from those properties. Some landlords did this repeatedly.

Records – Assets that are worth hundreds of thousands of dollars, including your home, need your attention, particularly regarding records. When figuring your gain or loss, you will, at a minimum, need the escrow statement from the purchase, a list of improvements (not maintenance work) with receipts, and the final escrow statement from the sale. When you encounter any of the issues discussed in this article, you may need additional documentation.

A few other rare home-sale rules are not included here. As you can see, home-sale computations and tax reporting can be very complicated, so please call this office if you need assistance.

Important Things to Know About IRAs

Article Highlights:

- IRA Contribution Limits
- Compensation
- Active Participation
- Traditional IRA
- AGI Phaseouts
- Nondeductible Contributions
- Spousal IRA
- Roth IRA
- Back Door Roth IRA
- Penalties
- Rollovers
- Conversions
- Required Minimum Distributions

The individual retirement account (IRA) is one of the favored ways to save money for retirement. There are two types of IRAs: the traditional IRA and the Roth IRA. The annual maximum that an individual can be contributing between the two types of IRAs is $5,500, unless the individual is 50 years of age or older, and then the maximum is increased to $6,500. The basic contribution amount is inflation adjusted annually and the amount quoted is for 2017, while the additional amount for those 50 and older is fixed at $1,000. Contributions to an IRA may or may not be tax deductible depending on the type of IRA and, in some cases, the amount of the taxpayer's income for the contribution year and whether the taxpayer participates in an employer's retirement plan.

Compensation - In order to contribute to either type of IRA, the taxpayer must have compensation equal to the amount of the contribution. Compensation includes wages, tips, bonuses, professional fees, commissions and net income from self-employment. Alimony recipients may treat alimony as compensation for purposes of making IRA contributions. Also, members of the military receiving excludable combat pay may count the excluded amount as compensation for IRA purposes.

Active Participation in Another Retirement Plan - When an individual is an active participant in another retirement plan, such as an employer qualified pension, profit sharing or stock bonus plan, a qualified annuity, tax-sheltered annuity, government plan or simplified employee pension plan (SEP), the deductible IRA contribution is phased out for higher-income taxpayers. For 2017, the adjusted gross income (AGI) phaseout ranges are illustrated below.

Filing Status	Single and Head of Household	Married Joint and Surviving Spouse	Married Filing Separate
Phaseout Range	$62,000 to $72,000	$99,000 to $119,000	$0 to $10,000

There is a special rule for those who are married and filing jointly when one spouse is not an active participant in another retirement plan. That spouse's phase-out range is increased to

AGIs between $186,000 and $196,000.

Example: *Sally, age 45 and single, is employed and her only income for 2017 is W-2 wages in the amount of $67,000. She is also an active participant in her employer's 401(k) plan. She has no adjustments to her income, so her AGI for the year is also $67,000. Since she participates in her employer's pension plan her IRA contribution is subject to the* phaseout *limitations. Her AGI is* halfway *through the phaseout range, so her deductible IRA contribution is limited to $2,750 (1/2 of $5,500). If Sally's AGI had been $72,000 or more, she would not be able to make a deductible IRA contribution.*

These phaseout limitations only apply to the deductible amount of a traditional IRA contribution. An individual can still contribute the full amount, limited by his or her compensation, but the excess amount is treated as a nondeductible contribution to the traditional IRA and establishes a basis. Then in the future, when an IRA distribution is taken, a prorated amount of the distribution will be nontaxable.

Nondeductible Contributions - In addition to making nondeductible contributions that are ineligible for IRA deductions due to active participation and income limits, an individual can also elect to treat otherwise deductible contributions as nondeductible. However, before making nondeductible IRA contributions, an individual should first consider a Roth IRA, discussed below, as an alternative.

Spousal IRA – An often-overlooked opportunity for maximizing IRA contributions is what is referred to as a "spousal IRA." This allows a spouse with no or very little earned income to contribute to his or her IRA as long as the other spouse has sufficient earned income to cover them both.

Example: *Tony is employed and his W-2 for 2017 is $100,000. His wife, Rosa, age 45, has a small income from a part-time job totaling $900. Since her own compensation is less than the contribution limits for the year, she can base her contribution on their combined compensation of $100,900. Thus, Rosa can contribute up to $5,500 to an IRA for 2017. Without this special rule, Rosa's contribution would be limited to $900, the amount of her own compensation.*

Roth IRA – An alternative to a traditional IRA is the Roth IRA. Whereas traditional IRAs provide a tax-deductible contribution and *tax-deferred* accumulation, Roth IRAs provide no tax deduction but have *tax-free* accumulation. Thus, when retirement distributions are taken from a Roth IRA, they are tax-free. On the other hand, those taken from a traditional IRA are fully taxable except for the non-deductible contributions discussed above.

However, contributions to Roth IRAs are never tax-deductible and the allowable contribution is phased out for higher income taxpayers, regardless of whether they actively participate in an employer's retirement plan. For 2017, the adjusted gross income (AGI) phaseout ranges for Roth IRA contributions are illustrated below.

Filing Status	Single and Head of Household	Married Joint	Married Filing Separate
Phaseout Range	$118,000 to $133,000	$186,000 to $196,000	$0 to $10,000

Example: *Rosa, in the previous example, can designate her IRA contribution to be either a deductible traditional IRA or a nondeductible Roth IRA because the couple's AGI is under $186,000. Had the couple's AGI been $191,000, Rosa's allowable contribution to a deductible traditional or Roth IRA would have been limited to $2,750 because of the phaseout. The other $2,750 could have been contributed to a nondeductible traditional IRA.*

Back-Door Roth IRAs – Those individuals whose incomes are too high to qualify for a Roth IRA contribution can make a traditional IRA contribution and then convert the contribution to a Roth IRA using an IRA conversion process, discussed later in this article, available to all taxpayers of any income level.

Contribution Timing – Because income (AGI) limitations apply to IRAs, contributions can be made after the close of the year, giving taxpayers time to accurately determine their AGIs for the year and the correct amount of their IRA contributions. The contribution must be made no later than the unextended due date for filing a return, which is April 15. However, if the due date falls on a weekend or holiday, the due date is extended to the next business day. So, 2017 contributions must be made by April 17, 2018.

Penalties – There is a 6% penalty on amounts contributed to an IRA in excess of the allowable contribution amount. This penalty continues to apply annually until the excess is corrected. There is also a 10% early distribution penalty on the taxable amount withdrawn from an IRA before reaching age 59½. However, some or all of the 10% penalty is waived under certain circumstances, such as for first-time homebuyers, to pay for higher education expenses, to pay for medical insurance by some unemployed individuals or when a taxpayer becomes disabled. For those wishing to retire early, the penalty can also be waived if distributions are a series of substantially equal payments over the taxpayer's life and continue until the taxpayer reaches age 59½ or for a minimum of five years, whichever is later.

Rollovers – From time to time a taxpayer may need to take funds from the IRA. If they are returned within 60 days, the distribution is not taxable and the 10% early withdrawal penalty will not apply. However, this is only allowed once in any 12-month period. This restriction does not apply to direct trustee-to-trustee transfers when the IRA owner is switching trustees or investments. CAUTION: All IRA accounts are considered one, so this rule applies collectively to all IRA accounts, meaning that an individual cannot make an IRA-to-IRA rollover if he or she has made such a rollover involving any of his or her IRAs in the preceding 12-month period.

Conversions - To take advantage of the tax-free benefits of a Roth IRA, an IRA owner can convert a traditional IRA to a Roth IRA any time, but taxes must be paid on the amount of the taxable traditional IRA funds converted to a Roth IRA. Timing is key when making a conversion, because one would want to do that in a low-income year or make a series of conversions so as to spread the income over a number of years. If contemplating a conversion, it should be accomplished as early in life as possible to provide a longer period of tax-free accumulation.

If an IRA conversion is made and then the IRA owner later regrets making the conversion, the Roth IRA can be recharacterized as a traditional IRA up to the extended due date of the return, which for a 2017 return would be October 15, 2018. Typical reasons for recharacterizing include not being able to pay the tax on the conversion or if the IRA has dropped in value after the conversion.

Retirement Distributions – For both traditional and Roth IRAs, distributions can begin once a taxpayer reaches age 59½ without penalty. For traditional IRA owners, once they reach age 70½ they must begin taking what is referred to as a minimum required distribution (RMD) each year. The minimum amount is based upon current age and the value of the IRA account. Roth IRAs are not subject to the RMD requirement. Failing to take a distribution of the required minimum amount may result in a 50% penalty of the amount that should have been withdrawn but wasn't. However, the IRS will waive the penalty under certain conditions. TIP: In any post-retirement year when your income is below the taxable threshold, you have an opportunity to withdraw from the IRA tax-free. You should consider doing so even if you don't need the income. You can put it away in a savings account until you do need it.

As you can see, the rules regarding IRAs are complex, and this article has only covered the most commonly encountered ones. Please give this office a call if you would like to discuss how IRAs would apply to your particular circumstances or if you are in need of assistance planning for your retirement.

5 QuickBooks Reports You Need to Run in January

Does your accounting to-do list look like a clean slate, or are critical 2017 tasks still nagging?

Getting all of your accounting tasks done in December is always a challenge. Besides the vacation time you and your employees probably took for the holidays, there are those year-end, *Let's-wrap-it-up-by-December-31* projects.

How did you do last month? Were you ready to move forward when you got back to the office in January? Or did you run out of time and have to leave some accounting chores undone?

Besides paying bills and chasing payments, submitting taxes and counting inventory in December, there's another item that should have been on your to-do list: creating end-of-year reports. If you didn't get this done, it's not too late. It's important to have this information as you begin the New Year. QuickBooks can provide it.

A Report Dashboard

You may be using the **Reports** menu to access the pre-built frameworks that QuickBooks offers. Have you ever explored the **Report Center**, though? You can get there by clicking Reports in the navigation toolbar or **Reports | Report Center** on the drop-down menu at the top of the screen.

QuickBooks' **Report Center** introduces you to all of the software's report templates and helps you access them quickly.

As you can see in the image above, the **Report Center** divides QuickBooks' reports into categories and displays samples of each. Click on one of the tabs at the top if you want to:

- **Memorize** a report using any customization you applied.
- Designate a report as a **Favorite**.
- See a list of the most **Recent** reports you ran.
- Explore reports beyond those included with QuickBooks, **Contributed** by Intuit or other parties.

Recommended Reports

Here are the reports we think you should run as soon as possible if you didn't have a chance to in December:

Budget vs Actual

We hope that by now you've at least started to create a budget for 2018. If not, the best way to begin is by looking at how close you came to your numbers in 2017. QuickBooks actually offers four budget-related reports, but **Budget vs Actual** is the most important; it tells you how your actual income and expenses compare to what was budgeted.

Budget Overview is just what it sounds like: a comprehensive accounting of your budget for a given period. **Profit & Loss Budget Performance** is similar to **Budget vs Actual**. It compares actual to budget amounts for the month, fiscal year-to-date, and annual. **Budget vs Actual Graph** provides a visual representation of your income and expenses, giving you a quick look at whether you were over or under budget during specific periods.

Income & Expense Graph

You've probably been watching your income and expenses all year in one way or another. But you need to look at the whole year in total to see where you stand. This graph shows you both how income compares to expenses and what the largest sources of each are. It doesn't have the wealth of customization options that other reports due, but you can view it

by date, account, customer, and class.

A/R Aging Detail

QuickBooks' report templates offer generous customization options.

Which customers still owe you money from 2017? How much? How far past the due date are they? This is a report you should be running frequently throughout the year. Right now, though, you want to clean up all of the open invoices from 2017. **A/R Aging Detail** will show you who is current and who is 31-60, 61-90, and 91+ days old. You might consider sending **Statements** to those customers who are way past due.

A/P Aging Detail

Are you current on all of your bills? If so, this report will tell you so. If some bills slipped through the cracks in December, contact your vendors to let them know you're on it.

Sales by Item Detail

January is a good time to take a good look at what sold and what didn't in 2017 before you start placing orders for 2018. We hope you're watching this closely throughout the year, but looking at monthly and annual totals will help you identify trends – as well as winners and losers.

QuickBooks offers some reports in the **Company & Financial** and **Accountant & Taxes** categories that you can create, but which really require expert analysis. These include **Balance Sheet**, **Trial Balance**, and **Statement of Cash Flows**. You need the insight they can offer on at least a quarterly basis, if not monthly. Connect with us, and we can set up a schedule for looking at these.

January 2018 Individual Due Dates

January 2 - Time to Call For Your Tax Appointment -

January is the beginning of tax season. If you have not made an appointment to have your taxes prepared, we encourage you to do so before the calendar becomes too crowded.

January 10 - Report Tips to Employer -

If you are an employee who works for tips and received more than $20 in tips during December, you are required to report them to your employer on IRS Form 4070 no later than January 10.

January 16 - Individual Estimated Tax Payment Due -

It's time to make your fourth quarter estimated tax installment payment for the 2017 tax year.

January 16 - Farmers & Fishermen Estimated Tax Payment Due -

If you are a farmer or fisherman whose gross income for 2016 or 2017 is two-thirds from farming or fishing, it is time to pay your estimated tax for 2017 using Form 1040-ES. You have until April 17, 2018 to file your 2017 income tax return (Form 1040). If you do not pay your estimated tax by January 16, you must file your 2017 return and pay any tax due by March 1, 2018 to avoid an estimated tax penalty.

January 2018 Business Due Dates

January 16 - Employer's Monthly Deposit Due -

If you are an employer and the monthly deposit rules apply, January 16 is the due date for you to make your deposit of Social Security, Medicare and withheld income tax for December 2017. This is also the due date for the nonpayroll withholding deposit for December 2017 if the monthly deposit rule applies. Employment tax deposits must be made electronically (no paper coupons), except employers with a deposit liability under $2,500 for a return period may remit payments quarterly or annually with the return.

January 31 - 1099-MISCs Due To Service Providers & the IRS -

If you are a business or rental property owner and paid $600 or more to individuals (other than employees) as nonemployee compensation during 2017, you are required to provide Form 1099 to those workers by January 31. "Nonemployee compensation" can mean payments for services performed for your business or rental by an individual who is not your employee, commissions, professional fees and materials, prizes and awards for services provided, fish purchases for cash, and payments for an oil and gas working interest. In order to avoid a penalty, copies of the 1099s also need to be sent to the IRS by January 31, 2018 *. The 1099s must be submitted on optically scannable (OCR) forms. This firm prepares 1099s in OCR format for submission to the IRS with the 1096 submittal form. This service provides both recipient and file copies for your records. Please call this office for preparation assistance. *This due date for the IRS' copy is one or two months earlier than in years prior to 2017 and applies when you have paid nonemployee compensation that is being reported in box 7 of the 1099-MISC.

January 31 - Form 1098 and Other 1099s Due to Recipients -

Form 1098 (Mortgage Interest Statement) and Forms 1099, other than 1099-MISC, are also due to recipients by January 31. The IRS' copy is not due until February 28,2018, or April 2, 2018 if electronically filed. These 1099s may be reporting the following types of income:

- Dividends and other corporate distributions
- Interest
- Amounts paid in real estate transactions
- Rent
- Royalties
- Amounts paid in broker and barter exchange transactions
- Payments to attorneys
- Payments of Indian gaming profits to tribal members
- Profit-sharing distributions
- Retirement plan distributions
- Original issue discount
- Prizes and awards
- Medical and health care payments
- Debt cancellation (treated as payment to debtor)

January 31 - Employers - W-2s Due to All Employees & the Government -

EMPLOYEE'S COPY: All employers need to give copies of the W-2 form for 2017 to their employees. If an employee agreed to receive their W-2 form electronically, post it on a website and notify the employee of the posting. GOVERNMENT'S COPY: W-2 Copy A and Transmittal Form W-3, whether filed electronically or by paper, are due January 31 to the Social Security Administration. This is a month earlier than in years before 2017.

January 31 - File Form 941 and Deposit Any Undeposited Tax -

File Form 941 for the fourth quarter of 2017. Deposit any undeposited Social Security, Medicare and withheld income tax. (If your tax liability is less than $2,500, you can pay it in full with a timely filed return.) If you deposited the tax for the quarter in full and on time, you have until February 12 to file the return.

January 31 - File Form 943 -

All farm employers should file Form 943 to report Social Security, Medicare taxes and withheld income tax for 2017. Deposit any undeposited tax. (If your tax liability is less than $2,500, you can pay it in full with a timely filed return.) If you deposited the tax for the year in full and on time, you have until February 12 to file the return.

January 31 - W-2G Due from Payers of Gambling Winnings -

If you paid either reportable gambling winnings or withheld income tax from gambling winnings, give the winners their copies of the W-2G form for 2017

January 31 - File 2017 Return to Avoid Penalty for Not Making 4th Quarter Estimated Payment -

If you file your prior year's individual income tax return and pay any tax due by this date, you need not make the 4th Quarter Estimated Tax Payment that was otherwise due earlier in January.

January 31 - File Form 940 - Federal Unemployment Tax -

File Form 940 (or 940-EZ) for 2017. If your undeposited tax is $500 or less, you can either pay it with your return or deposit it. If it is more than $500, you must deposit it. However, if

you deposited the tax for the year in full and on time, you have until February 12 to file the return.

January 31 - File Form 945 -

File Form 945 to report income tax withheld for 2017 on all non-payroll items, including back-up withholding and withholding on pensions, annuities, IRAs, gambling winnings, and payments of Indian gaming profits to tribal members. Deposit any undeposited tax. (If your tax liability is less than $2,500, you can pay it in full with a timely filed return.) If you deposited the tax for the year in full and on time, you have until February 12 to file the return.