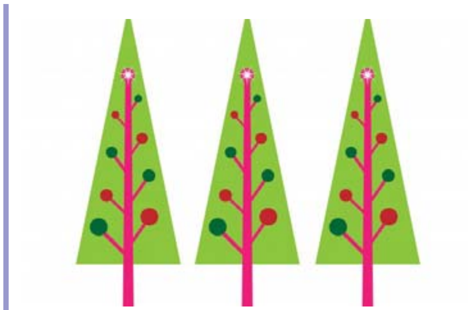
Volume 9, Issue 2

NEWSLETTER NEWSLETTER NEWSLETTER

Strand Boyce O'Shaughnessy, CPAs, Inc.



November, 2016

Inside this issue:

The information given in this newsletter is general in nature and no major income tax decision should be based solely on the ideas or information included.

Readers are urged to contact Strand Boyce O'Shaughnessy, CPAs, Inc. for specific advice regarding decisions with major income tax consequences.

The Times They are A-Changin'

-Bob Dylan

No doubt about it, there are sure to be some interesting times ahead as a new president and Congress take the helm in 2017. We don't think we are going too far out on a limb when we say that we are fairly certain there will be changes to the tax code in 2017. Both president-elect Trump and the Republicans in Congress agree that tax rates should be lower, but they differ on the details of what deductions and credits to allow. We think lower income taxes are on the horizon for most of our individual and business clients, and this should be considered when doing year-end tax planning (See separate article).

Other proposed changes:

- Eliminate the alternative minimum tax (AMT). If this is not eliminated, or the rate is not significantly reduced, lowering the regular income tax rates won't have much effect for many people, since the AMT tax rate is essentially a flat tax.
- Eliminate the 3.8% tax on net investment income.
- Increase the standard deduction.
- Cap itemized deductions at $100K for single filers and $200K for joint filers.
- Eliminate personal exemptions.
- Increase the deductible amount for child care costs.
- Create new savings accounts for care expenses for children or elderly parents.
- Eliminate most business credits except for the R&D credit.
- Eliminate the estate tax.

Thinking of being a generous Santa?

Each individual can make a gift of as much as $14,000 to any other person without having to worry about gift tax. You can't claim a tax deduction for a gift you make because, well, it is a gift, not an expense. It is also not a charitable contribution, no matter how much you may consider that relative to be a charity case! On the flip side, the fortunate recipient of your generosity does not have to report the gift as income. This is an annual limit, so fill up the stockings by December 31. The gift-giving clock resets on January 1.

2017 contribution limits for:

401K plans: $18,000 plus another $6,000 if you are 50 years old or older.

IRAs: $5,500 plus another $1,000 if you are 50 years old or older.

Health Savings Accounts: $3,400 for a single plan, $6,750 for a family plan, plus another $1,000 for each spouse who is 55 years old or older.

Funding deadlines

Keep in mind that you must fund your 2016 IRA and Health Savings Account (HSA) by 4/15/2017 if you want to claim the contribution as being for the 2016 tax year. Even if your personal tax return filing due date is extended, no extension is allowed for funding these plans.

In-Home Caregivers: Are They Employees?

As it becomes increasingly common for people to employ caregivers in their home, it is important to ensure that all laws are followed, from tax to immigration to labor. Whether a caregiver is an employee or a contractor depends on financial control and the specific type of relationship between the parties. The IRS explains that an employer-employee relationship exists when the person for whom services are performed has the right to control the actions of the person performing the services, determining not only which services are performed but also how. If the caregiver is determined to be an employee the family is responsible for a variety of taxes (such as social security and medicare) and the filing of federal and state forms (such as W-2s). Additionally, other labor laws will be applied and the family will be responsible for workers' compensation insurance and tracking overtime and sick pay. It is much simpler if your in-home caregiver is determined to be a contractor. There are many services that you can work with to provide caregivers for you and your family. They handle all of the employment details. These services may seem expensive at first, but when making your decision, keep in mind the additional costs of having an in-home employee.

529 Education Plans

Remember to reimburse yourself for any higher education expenses paid in 2016 on or before December 31, 2016. It is best to match the 529 disbursements and the costs paid to the same tax year.

Old Habits Will Be Hard To Change!

There are new due dates for entity tax returns starting with the 2016 tax year. Partnership tax returns will now be due March 15 (used to be April 15), and calendar year C-corporation tax returns will be due April 15 (used to be March 15). There is no change for S-corporation tax returns, which keep the old due date of March 15. All calendar year entities can file for an extension, and the extended due date will be September 15 for all. Different rules apply to fiscal year end corporations – we'll spare you the details because it will take another paragraph to explain those due dates (if you want to know, call us). The reason for the change is, ostensibly, to allow individuals to receive K1s from partnerships and S-corporations before the April 15 filing date for individuals. We may be a bit cynical, but we really wonder whether a partnership that was just barely able to meet the April 15 due date is going to be able to file a month earlier.

Our prediction: more extensions for all entities!

More New Deadlines!

The deadline for filing W-2s and 1099-MISCs with the IRS has been accelerated to January 31. Previously, businesses had until the end of February to file their documents with the IRS. The January 31 deadline has long applied to employers furnishing W-2s to their employees and businesses furnishing 1099-MISCs to vendors; that date remains unchanged.

New Version of I-9

The U.S. Citizenship and Immigration Services has released a new version of the Form 1-9. Employers are required to use the new version beginning January 22, 2017. More information is available at:

www.uscis.gov/news/news-releases/uscis-revises-form-i-9-used-all-news-hires-us.

Year End Tax Planning Reminders

Tax Rates May Be Lower In 2017

Assuming tax rates will be lower in 2017, it will make sense to defer income into 2017 if possible, and to accelerate tax deductions into 2016. Be careful when paying non-business expenses like state income tax and real estate tax, because if you are subject to the alternative minimum tax these are not deductible for alternative minimum tax purposes. Charitable contributions are deductible for both the regular and the alternative minimum tax calculation.

The same suggestions as in the past few years still hold true:

- If you have large capital gains this year, check to see if there are any capital losses you can generate by year end to offset the gains.

- If you have large capital gains, or any other significant increase in taxable income this year and you think you will owe state tax as a result, consider whether you should pay the state income tax due on this income in 2016. You may not get the maximum federal tax deduction for the state tax payment if you wait to pay it on April 15, 2017.

- Conversely, if you have very low taxable income, or even "negative" taxable income, this might be the ideal time to take distributions from your regular IRA, or convert your regular IRA to a Roth-IRA, or sell some investments which will generate a capital gain, so that you take full advantage of your 0% tax bracket.

- Be sure to get an appraisal for any single item, or group of items of a similar type, which you are planning to donate to charity which is worth $5,000 or more. Your tax deduction will be limited to $5,000 if you don't have an appraisal.

Plan To Fund Your Retirement Plan

- If you are a business owner and have not set up a retirement plan, but think you may want to contribute to a retirement plan for 2016 (by the due date of your business income tax return), you will have to set up the plan by December 31. The only exception is a SEP-IRA plan, which can be set up in 2017 and be effective for 2016. This plan must be in place by the due date of your business income tax return, including extensions.

- If you are planning to fund a regular IRA, Roth-IRA, or Health Savings Account for 2016 those accounts must be set up and funded by 4/15/2017. No extension is possible.

- Don't forget to take your required minimum distributions from retirement plans by December 31. This applies to those of you who are age 70-1/2 or older, and also to those who have an inherited IRA.

Manage When You Take Your Capital Gains

We encourage you to call us if you have any questions about what you may be able to do by December 31 to reduce your tax hit on April 15.

California employers continue to pay higher FUTA tax.

Because California has not repaid the federal government for amounts it borrowed to pay Unemployment Insurance Benefits, employers in the state will once again pay as much as $126 more FUTA tax <u>per employee.</u> The federal government recovers the amount due from the state by collecting the amount from employers. This is the sixth year that employers have had to pay the higher FUTA tax due to California's failure to repay its loan.

Beware of FTB Impersonators

The California Franchise Tax Board has a handy website where you can pay taxes online and check on the status of your return. The website is www.ftb.ca.gov.

It has come to the attention of the Franchise Tax Board that when taxpayers use a search engine to find the FTB's website they can be misdirected to other sites which can install malware or provide phone numbers that are meant to scam you into revealing personal information.

Caution

When our kids go off to college, they will often be encouraged by the school or by their peers to file their own tax returns. This is great! However, they will often claim themselves as a deduction leaving the parents without a deduction for the child for whom they are paying college tuition. Caution your college student that they shouldn't claim a personal exemption for themselves on their tax return without checking with you first!

America Counts on CPAs®

Members of AICPA®

As always, we appreciate your referrals. Your confidence in us is greatly valued.

We say it each year, and it is still true today: We enjoy what we do and we enjoy working with you!

Strand Boyce O'Shaughnessy, CPAs, Inc.

3480 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

Phone: 925-934-1191
Fax: 925-930-0984

TO:

Check out our Website!

www.strandboycecpas.com

We appreciate the confidence you have in us. It is not taken for granted.

Holiday hours

We will close at noon on December 23 and re-open December 27.

We will close at noon on December 30 and re-open January 3.

Keep in mind that when you donate to funded drives and campaigns to help individuals, these donations are not tax deductible. Only donations to U.S. qualified charities are deductible (501(c)(3) charities).

Extreme Tax Planning?

If you are want to reduce your tax bill, maybe you should get a divorce! The "marriage penalty" – the extra tax some married taxpayers incur, compared to what two single individuals pay – can be significant. Typically this occurs when both spouses are working and have similar income levels. How much is the penalty? If you are making $400K each, that penalty can be as much as $35K a year. And no, married filing separately does not fix this particular problem. There are of course other issues to consider before concluding being married is not worth paying an extra $35K of taxes each year, so don't use this strategy without considering all the ramifications (including that look your spouse gives you when you suggest this!)