2017 YEAR-END TAX PLANNING TIPS

Year-end Planning for Income Taxes is Critical!

2017 is coming to a close; however, you still have time to avoid big surprises at tax-time next year. We suggest that you start year-end planning now by finding time to read through this newsletter as soon as you can. It's filled with tax-saving ideas, many of which won't work if you wait too long.

Tax Reform: Tax legislation is being discussed in Congress. They are contemplating the most extensive re-write of the Internal Revenue Code since 1986. Time will tell if this legislation will pass in 2017.

DID YOU KNOW.....

You are able to drop off your documents to have your taxes prepared?

We know how valuable your time is. If an appointment is not convenient, feel free to consider dropping off your documents.

After we review your information, we will call you for a consultation, review meeting, and/or to pick up your completed tax return.

Important Items for 2017

- **Standard Mileage Rates for 2017**: The optional standard mileage allowance for owned or leased autos (including vans, pickups or panel trucks) for business travel taking place in **2017** is **53.5¢** per mile. The **2018** standard mileage rates are expected to be announced by the IRS in early December.
- **Reporting Changes in Circumstances:** If you purchased health insurance coverage through the Health Insurance Marketplace, you may be receiving advance payments of the premium tax credit in 2017. It is important that you report *changes in circumstances* to your Marketplace so you get the proper type and amount of premium assistance. Some of the changes that you should report include changes in your income, employment, or family size. Advance credit payments help you pay for the insurance you buy through the Marketplace. Reporting changes will help you avoid getting too much or too little premium assistance in advance.
- **Individuals and Dependents Must Have Health Insurance:** The Affordable Care Act mandates individuals and their dependents to have health insurance that includes minimum essential coverage or pay a penalty. Some taxpayers will qualify for an exception from this "individual mandate"; others already have qualifying coverage obtained through the individual market, through a government-sponsored exchange or through an employer-provided plan; still others have coverage through a government program such as Medicare or Medicaid. For lower-income individuals who obtain health insurance at the Healthcare Marketplace, a premium tax credit and cost-sharing reductions may be available to help offset the costs.

- **Refunds held for those claiming EITC or ACTC Until Mid-Feb**: By law, the IRS cannot issue refunds for people claiming the Earned Income Tax Credit (EITC) or Additional Child Tax Credit (ACTC) before mid-February. The law requires the IRS to hold the entire refund – even the portion not associated with EITC or ACTC. The IRS expects the earliest EITC/ACTC related refunds to be available in taxpayer bank accounts starting on February 27, 2018, if direct deposit was used and there are no other issues with the tax return. This additional period is due to several factors, including the Presidents Day holiday and banking and financial systems needing time to process deposits. This law change, which took effect at the beginning of 2017, helps ensure that taxpayers receive the refund they are due by giving the IRS more time to detect fraud.

- **Plan to participate in your employers flexible spending account, HSA or cafeteria plans** Between now and 2018 employers will offer enrollment in flexible spending accounts and health savings accounts. Cafeteria plans or flexible spending accounts allow you to pay for certain items such as childcare and medical expenses with pretax dollars.

- **Maximize Employer Benefit Plans** Employee contributions to employer sponsored retirement plans allow you to defer current compensation, receive tax deferred growth, and possibly obtain employer-matching contributions. If you are 50 or over, you may contribute higher amounts.

- **Tax Scams** The IRS does not contact taxpayers by email to request personal or financial information. The IRS will never make threatening phone calls or require you to make payments by debit or credit cards. If you have questions, call the IRS at 800-829-1040 and an IRS representative will assist you. To report a fraud, call 800-366-448.

Year-End Tax Planning Moves for Businesses & Business Owners

- **The Section 179 limit for 2017 is $510,000** for purchases of qualifying assets. Bonus depreciation at the 50% level for qualifying original use (new) assets. Let's discuss utilizing these strategies. Planning is important.

- **New IRS Rules about When to Capitalize and When to Repair:** In recent years, the IRS finalized regulations that determine when taxpayers should capitalize or deduct as a current expense repairs on tangible property. These rules present the opportunity to write-off rather than capitalize significant expenditures. Call us to discuss if you are planning significant expenditures.

- **Consider Selling Rather Than Trading Your Business Automobile:** Before trading in your business automobile when purchasing a new vehicle, call our office to discuss whether an outright sale might be more advantageous. Because of depreciation restrictions on automobiles, a sale might result in a deductible tax loss. Call to discuss whether a trade or sale would be most advantageous.

Year-End Tax Planning Moves for Individuals

- **Estimated Income Tax:** If you receive income that's not subject to withholding, you may need to pay estimated tax. This may include income such as self-employment, interest, or rent. If you expect to owe a thousand dollars or more in tax, and meet other conditions, you may need to pay this tax. You would normally pay the tax four times a year. Check with us and we can help you figure out how much estimated tax you may need to pay.

- **Convert to a Roth IRA:** If you want to remain in the market for the long term, a Roth IRA might be better for you than a traditional IRA. Providing that you are eligible to do so, consider converting your traditional IRA money into a Roth IRA. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2017.

- **Defer Income to 2018:** Postponing income is also desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances or tax rate changes.

- **Charitable Contributions:** When making contributions of cash, check, or other monetary gift, regardless of amount, you must maintain a bank record or a written communication from the charity. If the contribution is $250 or more you must maintain a contemporaneous written receipt from the charitable organization.

- **<u>Balance Stock Gains and Losses:</u>** If you have taken losses on stock sales in 2017 and you have investments that have appreciated in value, you should consider selling if you believe the values have peaked, and thereby offset gains with your pre-existing losses.
- **<u>Accelerate deductions into 2017 to lower your 2017 tax bill:</u>** This strategy might enable you to claim larger deductions, credits, and other tax breaks for 2017 that otherwise are phased out over varying levels of adjusted gross income (AGI). These include child tax credits, higher education tax credits, and deductions for student loan interest. Consider using a credit card to pay deductible expenses to increase your 2017 deductions even if you don't pay the credit card bill until after year end.
- **<u>Don't Forget Your Required Minimum Distributions:</u>** Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retired plan) if you have reached age 70 ½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn.
- **<u>Charitable IRA Rollovers</u>** Individuals 70 ½ and older can make charitable IRA rollovers up to $100,000 per year. These distributions satisfy your required minimum distribution requirement. These distributions do not result in taxable income, nor do they result in tax deductions. For taxpayers who don't normally itemize deductions they create a tax benefit, as you effectively get a deduction for the entire contribution, resulting in a significant tax savings. Let us do the math on this tax strategy.
- **<u>Make Annual Gifts to Individuals:</u>** Consider making gifts to family and other heirs. The annual gift tax exclusion for 2017 is $14,000. The exclusion amount rises to $15,000 in 2018. You can make gifts of this size or less to an unlimited number of individuals. Consider strategies like helping children and grandchildren fund ROTH IRA's as a way to transfer wealth. In addition, paying qualified higher education expenses (tuition) directly for someone is not subject to the annual gift exclusion limits.
- **<u>Update Your Will or Trust:</u>** If you haven't updated your estate planning in recent years now is the time. Consider the unique needs of heirs, including special needs trusts. Consider making discounted lifetime gifts to reduce the value of your estate, if you anticipate your estate will be subject to estate tax.

NOW IS THE TIME TO PLAN FOR YOUR 2017 TAXES!

Situations occur almost every day that can impact your income taxes. Waiting until 2018 is likely to mean missing tax planning opportunities that are only available until the end of 2017.

In 2017 did you have a significant income change? Change your name or address? Marry, divorce, or live apart from your spouse? Have or adopt a child? Did your dependents graduate from college? Start or sell a business? We need to know!

<u>Call today for a tax planning appointment</u>. The sooner we meet, the more time we will have for tax saving action.

Thank You!

Your business is appreciated.
We thank you for your referrals!

Iowa Tax Tips

- **<u>Military Personnel</u>:** Certain military pay has preferential treatment for Iowa income tax purposes.
- **<u>Pension Exemption</u>:** An exemption, up to $12,000 for married taxpayers and $6,000 for other filers, for certain kinds of retirement income is available to eligible Iowa taxpayers.
- **<u>Social Security</u>:** Iowa does not tax Social Security benefits in the same manner as the IRS.
- **<u>College Savings Iowa</u>:** Each taxpayer may deduct up to $3,239 in contributions per beneficiary in 2017 for future qualified higher education expenses. For more information see <u>collegesavingsiowa.com</u>.
- **<u>Health & Long Term Care Insurance</u>:** 100% of qualified premiums paid with after tax dollars may be deducted even if you do not itemize deductions.
- **<u>Tuition & Textbook Credit</u>:** The credit is 25% for the first $1,000 paid for tuition, textbooks, and qualified extracurricular activities for each dependent attending an accredited elementary through secondary school in Iowa.