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Certified Public Accountants

Tax Update 2017

The following is a summary of some of the most important tax developments that have occurred that may affect you, your family, your investments, and your livelihood. Remember, these are only highlights, and because everyone's situation is different, this letter is not a substitute for professional advice regarding your particular situation. Please call us for more information about any of these issues and what steps you should implement to take advantage of favorable developments and to minimize the impact of those that are unfavorable.

INDIVIDUALS

Beginning in 2017, a new law approved by Congress requires the IRS to hold refunds on tax returns claiming the Earned Income Tax Credit or the Additional Child Tax Credit until at least February 15th.

There are a number of important tax breaks that will expire at the end of 2016. Some of these expiring tax breaks will likely be extended, but perhaps not all. Congress did not decide the fate of these tax breaks as of the end of 2016. For individuals, these breaks include:

- The exclusion for discharge of indebtedness on a principal residence,
- The treatment of mortgage insurance premiums as deductible qualified residence interest,
- The 7.5% of adjusted gross income floor beneath medical expense deductions for taxpayers age 65 or older,
- The deduction for qualified tuition and related expenses
- And a host of expiring energy provisions

BUSINESSES

Several provisions were extended for five years at the end of 2015:

- Bonus depreciation was extended under a phase-down through 2019: 50% for 2015-2017; 40% in 2018; and 30% in 2019
- The additional first year depreciation cap for automobiles and trucks (this does not apply to vehicles with a gross vehicle weight rating over 6,000 pounds.) The additional depreciation expense is \$8,000 for 2015 through 2017, \$6,400 for 2018, and \$4,800 for 2019.
- The work opportunity tax credit is extended through 2019. In addition, the credit has been expanded and is available to employers beginning in 2016 that hire qualified long-term unemployed individuals (individuals who have been unemployed for 27 or more weeks).

MISCELLANEOUS CHANGES

IRS Mileage Rates

Mileage rates for 2017 are reduced for businesses to 53.5¢ per mile and 17¢ per mile for medical and moving. Charitable remains unchanged. The standard mileage rates used to calculate the deductible costs of operating a vehicle in 2016 are as follows:

- 54¢ per mile for business
- 19¢ per mile for medical or moving
- 14¢ per mile for charitable causes

De Minimis Safe Harbor Election for Tangible Property

The de minimis safe harbor election for small businesses that do not maintain Applicable Financial Statements remains \$2,500 per invoice or item. This applies to amounts spent to acquire, produce or improve tangible property.

For taxpayers with Applicable Financial Statements, the de minimis threshold remains \$5,000. You are also required to have written accounting procedures in place at the beginning of each tax year.

Affordable Care Act (Obamacare)

The due date for providing 2016 health coverage forms (Form 1095-B or 1095-C) to individuals has been extended to March 2, 2017. Therefore you may not receive these forms by the time you are ready to file your return. While information on these forms may assist in preparing your return, the forms are not required to be submitted with your filing. Please contact us with any questions.

For 2016 the individual shared responsibility payment (penalty for not having health insurance) is the greater of 2.5% of household income that is above the tax return filing threshold for the individual's filing status or the individual's flat dollar amount, which is \$695 per adult and \$347.50 per child, limited to a family maximum of \$2,085, but capped at the cost of the national average premium for a bronze level health plan available through the Marketplace in 2016.

Employers with 50 or more full-time equivalent employees as well as smaller employers that provide self-insured health coverage will have to report healthcare coverage they provided or offered (or didn't offer) during the 2016 calendar year to the IRS and employees. Please contact us if this applies to you.

Due Dates for Tax Returns

The following tax return due dates for tax years beginning after December 31, 2015:

For partnerships, the return due date changes to March 15th or the 15th day of the third month after year-end (a six month extension can be requested).

The C Corporation return due date shifts forward one month to April 15th or the 15th day of the fourth month after year end. S Corporation due dates remain unchanged.

FinCEN Report 114 will now be due April 15th rather than June 30th. However, for the first time, a six month extension to October 15th will be available.

Due dates for estimated tax payments will not change.

Education Tax Credits and Deductions

For tax years beginning after June 29, 2015, generally tax year 2016, if taxpayers do not possess a valid Form 1098-T from the educational institution, they will no longer be allowed to claim the American Opportunity Tax Credit, the Lifetime Learning Credit, or the tuition and fees deduction under Section 222. Form 1098-T is necessary to complete Form 8863, which is used to claim education credits.

Inflation Adjustments

The following inflation adjustments were announced by the IRS:

- The maximum contribution limit for 401(k) and 403(b) retirement plans remains at \$18,000 and the “catch-up” contribution for those 50 and older remains at \$6,000.
- The maximum contributions allowed for both traditional and Roth IRAs remains at \$5,500 (\$6,500 for taxpayers age 50 and older)
- The federal estate tax exemption increases to \$5,490,000 for 2017.
- The gift tax exemption per donee remains at \$14,000 for 2017.
- The taxable wage base increases to \$127,200 for 2017.
- The threshold amount for cash payments to domestic service employees to be subject to FICA increases to \$2,000 on an annual basis.
- In 2017, for married filing joint taxpayers, the standard deduction is increased to \$12,700, the personal exemption remains at \$4,050, and the Alternative Minimum Tax (AMT) exemption

amount is \$84,500. For single taxpayers, the standard deduction is \$6,350 and the AMT exemption is \$54,300.

- For 2016 and 2017, under the kiddie tax, the parents' highest tax rate applies to a child's unearned income over \$2,100.
- The annual dollar limit on employee contributions to employer-sponsored healthcare flexible spending arrangements (FSA) increases to \$2,600 in 2017.

We hope we have provided you with useful information. Please be aware that many of these items are subject to complex rules. Please call us for more information about how these changes affect your situation.

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