ANDES, ERNST & BLACKMER INCOME TAX

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Tax year 2017

We hope you have all had a wonderful summer and Holiday Season. This newsletter serves to help you prepare for the upcoming tax filing season and be informed of any changes.

First, we want to thank you so much for the confidence you have all shown by your many referrals of new clients, and we would greatly appreciate your continued referrals.

Please remember to check our website at "aebtax.com" for helpful worksheets, updates, and news.

Many of the tax changes affecting individuals and businesses for 2017 were related to the Protecting Americans from Tax Hikes Act of 2015 (PATH) that modified or made permanent numerous tax breaks (the so-called "tax extenders"). To further complicate matters, some provisions were only extended through 2016 and are set to expire at the end of this year while others were extended through 2019. With that in mind, here's what individuals and families need to know about tax provisions for 2017.

Individual Mandate still in effect for 2017 and 2018: Beginning January 1, 2014, all individuals who do not meet certain exemption criteria must have minimum essential health insurance coverage. Nonexempt individuals who do not maintain the required health insurance coverage for themselves and any nonexempt dependents are subject to a shared responsibility penalty for each month that the required insurance is not maintained.

For 2017, if you don't have coverage you'll pay the greater of (i) $695 per person for the year ($347.50 per child under 18) up to a maximum penalty per family of $2,085, or (ii) 2.5% of your household income over the applicable filing threshold. The penalty is capped at the national average premium for a bronze plan. You must make the shared responsibility payment when you file your federal income tax return. Married individuals who file a joint return for a tax year are jointly liable for any shared responsibility payment

If you enrolled in health insurance coverage through the Health Insurance Marketplace (Heathcare.gov), you will receive Form 1095-A. If you have other health insurance, you will receive either Form 1094-B/1095-B from your health insurance provider or Form 1094-C/1095-C from your employer. **Please bring this form with you when we prepare**

Estate and Gift Taxes: In 2017 there is an exemption of $5.49 million per individual for estate, gift and generation-skipping taxes, with a top tax rate of 40 percent. The annual exclusion for gifts is $14,000.

Flexible Spending Accounts (FSA): Flexible Spending Accounts (FSAs) are limited to $2,600 per year in 2017 (up from $2,550 in 2016) and apply only to salary reduction contributions under a health FSA. The term "taxable year" as it applies to FSAs refers to the plan year of the cafeteria plan, which is typically the period during which salary reduction elections are made.

Specifically, in the case of a plan providing a grace period (which may be up to two months and 15 days), unused salary reduction contributions to the health FSA for plan years beginning in 2012 or later that are carried over into the grace period for that plan year will not count against the $2,600 limit for the subsequent plan year.

Further, employers may allow people to carry over into the next calendar year up to $500 in their accounts, but aren't required to do so.

American Opportunity Tax Credit: For 2017, the maximum American Opportunity Tax Credit that can be used to offset certain higher education expenses is $2,500 per student, although it is phased out beginning at $160,000 adjusted gross income for joint filers and $80,000 for other filers.

Lifetime Learning Credit: A credit of up to $2,000 is available for an unlimited number of years for certain costs of post-secondary or graduate courses or courses to acquire or improve your job skills. For 2017, the modified adjusted gross income threshold at which the lifetime learning credit begins to phase out is $112,000 for joint filers and $56,000 for singles and heads of household.

Student Loan Interest : In 2017 you can deduct up to $2,500 in student-loan interest as long as your modified adjusted gross income is less than $65,000 (single) or $135,000 (married filing jointly). The deduction is phased out at higher income levels. In addition, the deduction is claimed as an adjustment to income, so you do not need to itemize your deductions.

Contribution Limits: For 2017, the elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is $18,000 (same as 2016). For persons age 50 or older in 2017, the limit is $24,000 ($6,000 catch-up contribution). Contribution limits for SIMPLE plans remain at $12,500 (same as 2016) for persons under age 50 and $15,500 for anyone age 50 or older in 2017. The maximum compensation used to determine contributions increased from $265,000 to $270,000.

Educator Expenses: Whether or not they itemize, educators may deduct up to $250 of classroom expenses and expenses related to professional development.

Medical Expenses: Medical expenses that exceed 7.5% of your income are deductible if you itemize.

Beware of Tax Scams

The IRS reminds people that they can know pretty easily when a supposed IRS caller is a fake. Here are five things the scammers often do but the IRS will not do. Any one of these five things is a tell-tale sign of a scam. The IRS will never:

1. Call to demand immediate payment, nor will we call about taxes owed without first having mailed you a bill.
2. Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe.
3. Require you to use a specific payment method for your taxes, such as a prepaid debit card.
4. Ask for credit or debit card numbers over the phone.
5. Threaten to bring in local police or other law-enforcement groups to have you arrested for not paying.

If you believe you've been the victim of identity theft, contact the IRS Identity Protection Specialized Unit at 800-908-4490 right away so they can take steps to secure your tax account and match your SSN or ITIN.

Travel Expenses for Charitable Work

Do you plan to donate your time to charity this holiday season? If travel is part of your charitable giving, for example, driving your personal auto to collect donations from local business, you may be able to these travel expenses on your tax return and lower your tax bill. Here are five tax tips you should know if you travel while giving your services to charity.

1. Qualified Charities. To be able to deduct your costs, your volunteer work must be for a qualified charity. Most groups must apply to the IRS to become qualified. Churches and governments are generally qualified and do not need to apply to the IRS. Ask the group about its status before you donate. You can also use the "Exempt Organizations Select Check" search tool on IRS.gov to check a group's status or call the office.

2. Out-of-Pocket Expenses. You can't deduct the value of your services that you give to charity. But you may be able to deduct some out-of-pocket costs you pay to give your services. This can include the cost of travel, but they must be necessary while you are away from home. All out-of-pocket costs must be:

- Unreimbursed,
- Directly connected with the services,
- Expenses you had only because of the services you gave, and
- Not personal, living or family expenses.

3. Genuine and Substantial Duty. Your charity work has to be real and substantial throughout the trip. You can't deduct expenses if you only have nominal duties or do not have any duties for significant parts of the trip.

4. Value of Time or Service. You can't deduct the value of your time or services that you give to charity. This includes income lost while you serve as an unpaid volunteer for a qualified charity.

5. Travel You Can Deduct. The types of expenses that you may be able to deduct include Air, rail and bus transportation, car expenses, lodging costs, cost of meals, and taxi or other transportation costs between the airport or station and your hotel.

6. Travel You Can't Deduct. Some types of travel do not qualify for a tax deduction. For example, you can't deduct your costs if a significant part of the trip involves recreation or vacation.

Tax Law Changes for 2018

New Tax Brackets / Tax Rates: There are now seven tax rates: 10%, 12%, 22%, 24%, 32%, 35% and 37%.
Increased Standard Deduction: Married Filing Jointly $24,000, Married Filing Separately $12,000, Single $12,000, Head of Household $18,000
Personal & dependent exemptions have been eliminated.
Child Tax Credit: The child tax credit will increase to $2,000 per qualifying child under age 17 and will be refundable up to $1,400. Also included is a $500 nonrefundable credit for other qualifying dependents who are not qualifying children. These credits will be phased out beginning with adjusted gross income of more than $400,000 for married taxpayers filing jointly and more than $200,000 for all other taxpayers.
Tuition/Student Loans: There are no changes to the current tax law in regard to tuition credits or the student loan deduction (see page 1).

Section 529 Plans: Distributions of up to $10,000 per beneficiary can be used for tuition expenses for public, private or religious elementary or secondary school. The limitation applies on a per student basis.
State and Local Taxes: Taxpayers can claim a deduction for a combination of state and local income tax, sales tax, or real property tax. The deduction is capped at $10,000.
Medical Expenses: For 2017 through 2018, expenses exceeding 7.5% of income are deductible; that percent-age increases to 10% in 2019.
Charitable Contributions: Taxpayers who are able to itemize deductions can still include charitable contributions.
Mortgage Interest: The deduction for mortgage interest is capped at $750,000 of debt. The interest deduction is allowed on a first or second home. The interest on home equity loans will no longer be deductible. Interest on up to $1 million of acquisition debt for loans prior to December 15, 2017 is grandfathered.
Casualty Losses: Deductions for unexpected losses to personal property are no longer deductible unless covered by specific federal disaster declarations.
Employee Business Expenses including Mileage, Meals/Entertainment, Travel, Union Dues, Work-related Expenses, Professional Fees, Licenses, Memberships, Dues, Uniforms, Investment Expenses, etc. are no longer deductible.
Moving Expenses (except for active military) are no longer deductible.
Alimony: Beginning with new divorces in 2019, alimony payments to an ex-spouse are no longer deductible and not taxable to the recipient.
Affordable Care Act: The penalty for failing to maintain health insurance is repealed beginning in 2019.

Appointments

Please call our receptionist to schedule your appointment. If you prefer to drop off your information, we will call you at a later time to address any questions. This will keep the wait time for those with appointments to a minimum. Mailing, faxing, or e-mailing your tax return information is also still available if you prefer.

When bringing in more than one return (children, parents, etc.) or adding a business or rental etc.

Please let the receptionist know when you schedule your appointment if you may need extra time so they can schedule time accordingly. We do not charge by the hour, and it is OK if you don’t end up needing the time.

Kristy	kristy@kepayroll.com	795-9882 Ext 5#
Brian	brianblackmer@gmail.com	795-9882 Ext 6#

WHAT TO BRING LIST

- **NEW CLIENT? Copy of last year return**
- **Health Ins purchased through marketplace – need Form 1095-A**
- Estimated tax payments, if any
- Interest Income (1099-INT)
- Dividend Income (1099-DIV)
- Pension Income (1099-R)
- Unemployment Comp. (1099-G)
- Soc. Security Benefits or RRTA
- Distributions from Profit-Sharing-401(k)- IRA's, etc. (1099-R)
- Alimony income/expense
- Commissions-Independent-Contractor-Self Employment income and expenses (call for add'l worksheet)
- Railroad Retirement Benefits (RRTA-1099)
- Long Term Care Insurance Premiums (even if you don't itemize)
- **Educators** – Classroom expenses incurred (even if you don't itemize)
- Change of job moving expenses
- Rental property income and expenses
- Income from Partnerships, estates, trusts, S-Corps, etc. (K-1)
- Did you sell any real estate (see personal residence below); securities: stocks, mutual fund share, etc?

  You will need:
  - Date of sale and sales price
  - Records of date of purchase and <u>original cost</u>
  - Cost of improvements (real estate)
- Did you sell your personal residence? You will **<u>most likely</u>** not have to report this, but please let me know. In the event it is reportable, you will need:
  - Closing statement from purchase of home
  - Closing statement from sale of home
  - Records of any improvements
- Birthdates & SSN's for everyone on return
- IRA/SEP/KEOGH contributions/rollovers/withdrawals
- Gambling/Lottery Winnings
- Child care expenses so you could work - need name, address, SSN, and full amount paid to **<u>each</u>** day care provider **<u>even if you did pre-tax plan through your employer.</u>**
- Health Insurance Premiums **<u>only if not payroll deducted pre-tax</u>** (even if you do not itemize deductions)
- HSA – 1099 form and contributions (**<u>only if not payroll deducted)</u>**
- Jury pay - prizes – awards
- Did you sell or trade in any business assets e.g., car, computer, rental property?

  You will need:
  - Records of date of purchase and original cost
  - Records of prior depreciation
  - Any settlement statements
- Tuition for yourself, your spouse, and your dependents? Books possibly also.
- Do you make interest payments on a student loan?
- Contributions & distributions from state tuition programs
- Adoption expenses

<u>To itemize your deductions, we will need:</u>

- Out of pocket medical expenses must exceed 7.5% of income
- Health Insurance counts **only if <u>not</u> paid through a pre-tax payroll deduction.**
- Did you buy or sell a home? I will need your closing statements for possible deductions
- Home mortgage interest (1098)
- Real Estate Tax
- Personal Property Tax for property-car, boat, etc.
- Sales Tax on cars, trucks, RV's, boats, motorcycles)
- Charitable contributions
- **<u>Employee business & miscellaneous expenses (must exceed 2% of income to help)</u>**

  <u>Business Expenses</u>
  - Travel/transportation (call for auto wrksht)
  - Meals/Entertainment
  - Lodging
  - Job related tools, supplies, dues, subscriptions, licenses, permits, etc.
  - Business Gifts
  - Job related educational expenses
  - Job seeking expense
  - Union dues
  - Safety items/uniforms
  - Uniform cleaning expense
  - Business pager/cell phone

  <u>Miscellaneous:</u>
  - Safety deposit box fees
  - Tax preparation fees
  - Gambling losses **(only to the extent of winnings claimed)**
  - IRA fees not withheld from IRA account and investment expenses