Tax Tips For You... *Now!*

❑ Earnings Limits Have Increased

The annual earnings limit for those who both work and claim Social Security benefits will increase to $16,920 in 2017 for individuals who opt to receive benefits early (ages 62 through 65). For those who turn 66 in 2017, the earning limit increases to $44,880.

❑ Max Wages Subject To Social Security Tax

The Social Security Administration (SSA) announced that there will be a very small increase (0.2% to 0.5%) in monthly Social Security benefits in 2017, and that the maximum amount of wages subject to Social Security taxes will increase from $118,500 in 2016 to $127,200 in 2017. Earnings above the $127,200 amount are not subject to the Social Security portion of the payroll tax or used to calculate retirement payouts.

❑ Take Advantage of Inflation Tax Adjustments

Inflation will have a nominal effect on approximately 40 tax provisions in 2017. Most notably income brackets widened slightly. This means you can earn a bit more in 2017 without being bumped into a higher tax bracket. Most people claim the standard deduction. Those amounts for each filing status in 2017 are increased, as is the personal exemption amount. However, the amounts you can contribute to your workplace pension plan and individual retirement account in 2017 will remain the same as in 2016.

❑ Adjust Withholding Taxes

Most taxpayers get a Federal tax refund every year. For many of you, it's an easy way to save money for a major project or special purchase. This year many refunds were received later than in previous years. You can eliminate this annual wait from the IRS for your refund by not getting one

See "Tax Tips" on page 3

Your Masthead, CPA, EA

Company services, Affiliations

Phone: (111) 222-3333
Email: company@email.com
123 Elm Street
Anytown, USA 12345

Your Tax Calendar

Jun 15	2nd quarter estimated tax payments due.
Sept 15	3rd quarter estimated tax payments due.
Sept 15	Deadline for extended S-Corporation and Partnership returns.
Oct 1	Deadline to establish a Simple IRA for self-employed or small businesses.
Oct 16	Extended Returns for 2016 due.

Anytime you have any questions, don't hesitate to call me. I am here for you!

A Major Tax Strategy…*Revisited*

Roth Conversion – Is It Right For You Now?

The quickest way to get a relatively large sum into a tax-smart Roth IRA is by converting a traditional IRA into a Roth account. So doing a conversion in 2017 could be a great tax planning strategy.

Here's what you need to know:

Conversion basics

A Roth conversion is treated as a taxable distribution from your traditional IRA, because you're deemed to receive a payout from the traditional account with the money then going into the new Roth account. So doing a conversion before year-end will trigger a bigger federal income tax bill for this year (and maybe a bigger state income tax bill too).

Today's federal income-tax rates might be the lowest you'll see for the rest of your life. For most

See "Tax Strategy" on page 3

Your Masthead, CPA, EA

Company services, Affiliations

Phone: (111) 222-3333
Email: company@email.com
123 Elm Street
Anytown, USA 12345

TAX NEWS & TIPS

MID YEAR 2017

What About Tax Planning?

The political uncertainty surrounding President Trump might have an impact on individual tax planning in 2017 and beyond. It is still unclear how and when Trump's tax plan will be implemented and whether it will be approved by the House Republican leadership. Adding to tax planning uncertainty are other variables including the 2017 tax rate structure and the possible repeal of Obamacare. Another unknown is the impact on limitations for deductions dictated by the alternative minimum tax (AMT). Trump and the House of Representatives have vowed to abolish the AMT, which was originally implemented to target the wealthy but now impacts more than 4 million upper-middle class taxpayers each year. While the Trump tax plan along with the abolishment of the AMT could alleviate this burden on the middle class, it would likely mean a significant shortage in Treasury funding. Thus, individuals should be prepared for tax changes elsewhere to mitigate this loss in revenue.

Key proposed changes (at press time):

❑ Income Tax: Reduce the number of tax brackets from seven to three, and lower the top rate to 35%.

❑ Itemized Deductions: Limit deductions to $200,000 for joint filers and $100,000 for single filers under Trump's plan.

❑ Healthcare Tax: The proposal to repeal Obamacare could eliminate the 3.8% net investment income tax as well as the 0.9% Medicare hospital insurance tax.

❑ Capital Gains Tax: Long-term capital gains and qualified dividends could be capped at 20% under Trump's plan. The GOP's plan would tax gains (50% of the top rate of 35%, which works out to 17.5% maximum).

Tax Changes Could Be Significant Under New Laws

	2016 Rates	Trump's Proposal
Income Tax Rates	10%, 15%, 25%, 28%, 33%, 35%, 39.6%	10%, 25%, 35%
Long-Term Capital Gains and Qualified Dividends	0%, 15%, 20%	Same
Alternative Minimum Tax	26%, 28%	Repeal
Patient Protection & Affordable Care Act Taxes	3.8% net investment income tax	Repeal
(AGI over $200K Single / $250K Joint)	0.9% medicare hospital insurance tax	Repeal
Standard Deduction **Single** **Married filing joint**	 $6,300 $12,600	 $12,000 $24,000
Estate Tax	40% top rate $5,450,000 exclusion (adjusted for inflation)	Repeal Appreciated assets held at death greater than$10 million would be subject to capital gains tax

❑ Estate Tax: Trump and the GOP both support repealing the estate tax. Trump's plan calls for a capital gains tax on estate assets over $10 million. Furthermore, Trump has proposed reducing corporate taxes from 35% to 15%, providing repatriation of corporate profits held offshore at a one-time rate of 10%, pass-through entities to also be taxed at 15%. Carried interest income, now taxed as capital gains, will be taxed as ordinary income.

If these changes do in fact occur, we don't know when they would take effect. With so many unknown factors, tax planning and preparation for the year ahead becomes increasingly complex. Stay tuned for updates in tax law proposals and changes as they occur.

Inside This Issue

Déjà Vu! April 18.

Once again, Americans got a little extra time to file their taxes (April 18), thanks to the Emancipation Day holiday observed in the District of Columbia. Next year the 2018 filing deadline will once again be extended but by only two days… April 17, three years in a row with an extended deadline!

April 18 Has Come And Gone… Can We Relax?

Not Yet!

Your return or Request for Extension has been filed. BUT, you may not be completely finished with all of the steps related to your 2016 tax return.

Extension Filed?

October 16 is the extended return filing deadline but April 18 was the deadline for your tax payments. Continue to gather documents that were missing earlier and search for any items necessary to verify Schedules with incomplete information. Let's file as soon as we have all of your information. If you owe any additional tax, the IRS will add some interest and penalty to the bill.

Still Searching For That Refund?

You may contact the IRS Website www.irs.gov at the "Where's my Refund?" link to check the status of your refund. Another option is calling the IRS Tax Hotline at 800-829-1954. Both the Website and Hotline are updated every 24 hours. You will need to know your social security number, filing status and refund amount when inquiring about your refund status. Note that E-Filed returns are now tracked by the IRS in hours, however paper filed returns can take as long as 4-6 weeks before tracking even begins.

Owe IRS? Some Suggestions.

The IRS will send a bill. The bill will show your balance plus any interest and/or penalty. Pay as soon as possible to avoid additional charges.

Installment Plans.

IRS offers installment plans with fees of up to $225 to set up. Available if the amount owed for tax, penalties and interest is $50,000 or less and all tax returns have been filed timely. I can help.

Credit Card Payments.

A "convenience fee" up to 2.00% applies plus any interest until the balance is paid off. Minimum fees apply. Call 1-888-PAY1040 to set up a plan.

On No! I Forgot…

If you forgot some key information, I can file an amended return. You have 3 years after the filing deadline to change your return. Most 2013 & earlier returns have passed their deadline for filing an amendment. Call me if you have discovered tax documents or information that you originally omitted from a previously filed Tax Return.

What If I Get A Letter From The IRS?

If you get a letter from the IRS, try not to panic, just call me. The letters can be confusing. Don't risk making a simple issue a full blown problem. We can handle it together.

Will I Be Audited?

There's no sure-fire way to know. Your chance of an audit is less than 1%. That 1 in 100 chance is reduced to 1 in 250 if your return doesn't include income from a business, rental real estate or employee business expenses. Almost 70% of all "audits" are really done by a computer. The IRS compares various forms like W2s and 1099 forms from your employer, banks and brokers with what's on your return. When they spot enough of a discrepancy, an IRS letter is generated that appears to be a bill. Don't pay it yet! Send it to me and we will assess the situation. The IRS is not always right!

Keep Me Posted!

Throughout 2017 be alert for any changes that could create a tax surprise. Let me know about any new income items or changes in the members of your household.

Thanks to all of you for your excellent recordkeeping this past tax season. If any tax issues do arise during the year, do not hesitate to call me. Thanks for letting me serve you.

Myth vs. Truth

Myth:
Illegal activity is not taxable.
Truth:
The Supreme Court ruled in 1927 that income acquired through illegal activity is taxable income. The IRS doesn't care how an individual obtains the funds. As long as money is being made, the government is still entitled to their piece of the action. Illegal activity and not reporting taxable income is not a good idea on so many levels – just ask Al Capone.

Myth:
The IRS will file a return for you.
Truth:
The IRS does have the right to verify your return. The IRS can compile a return on your behalf if they suspect fraud, but you as a taxpayer must file your own return.

Myth:
Students don't have to pay taxes.
Truth:
Generally, a dependent student is not required to pay federal income taxes if they earned less than $6,350 during the 2017 tax year. However, the student should file their taxes anyway, because if they had an employer who withheld tax, the student is probably due a refund.

Myth:
Money made over the Internet is not taxable.
Truth:
This myth is just plain false. It's not hard to see how this myth might have gotten started. There isn't a third party submitting documentation to the IRS to substantiate money made online. Regardless of how you make money, if you sell a product or service, you're required to declare that income on your tax return.

Myth:
You can claim pets as dependents.
Truth:
No matter how much you love your pets, you can't claim them as dependents. Hundreds of people each year attempt to count Burt, Max or Rover as actual dependents. While there's no denying that pets do meet the requirement of getting more than half their financial support from their owners, there's still one small technicality…they're not humans! Falsely claiming a dependent is considered fraud and should be avoided at all costs.

"Tax Tips" from page 4

in the first place. Simply adjust your withholding taxes from your paycheck, unemployment checks, pension checks or social security checks. It's easy. Call the payer of your check (your payroll department for paychecks) and fill out the paperwork. The IRS even has an online calculator to help you www.irs.gov/irs-withholding-calculator. Or, call me. I can help with your calculation. On the flip side, if you owed significant taxes for 2016, you may want to increase your withholding amounts on your paycheck, pension or social security check. Pay the IRS as you go along or be hit again with a large tax balance due. It's ultimately up to you. You can stop the stress on your wallet by acting sooner rather than later.

❑ IRS Penalties Can Be Avoided!

If you owe federal tax on your 2017 tax return, you do not have to pay an underpayment penalty if either:

- Your total tax is less than $1,000, or
- You had no tax liability in 2016.

In general if neither of the above apply, you may owe a penalty for 2017 if the total of your withholding and timely estimated tax payments did not equal at least the smaller of:

1. 90% of your 2017 tax, or
2. 100% of your 2016 tax. (Your 2016 tax return must cover a 12-month period.)
3. Higher income taxpayers. If your AGI for 2016 was more than $150,000 ($75,000 if your 2016 filing status is married filing a separate return), substitute 110% for 100% in (2) above.

❑ Added Security?

Have your driver's license information handy when giving me information to prepare your 2017 tax return. The IRS and some states are asking for driver's license information for added security to curb fraudulent refunds on electronically filed returns. Although this information is optional for filing your federal return and some state tax filings, a few states (Ohio and New York) require filers to provide license information or indicate that they don't have a license.

❑ Medical Deductions Reduced For Seniors In 2017

For the vast majority of Americans in 2016, medical expenses would have had to exceed 10% of your adjusted gross income (AGI) before you could take a deduction. However, taxpayers 65 and older were able to use a previous threshold of just 7.5% of their AGI when itemizing and taking a deduction in 2016. Beginning in 2017, everyone will be treated equally. If you're 65 and older, your medical expenses will have to top 10% of your AGI before you can claim itemized medical expenses.

❑ Claim The Simplified Home Office Deduction

The recession has prompted many workers to start their own businesses, many of which are run from their homes. There's good filing news for these entrepreneurs. The IRS continues to offer a simplified home office deduction. While this option will be welcomed by many, note that the requirements to qualify as a home office still apply. For instance, the office space must be used regularly and exclusively for business. The IRS will allow you to claim a "standard deduction" based solely on the square footage of your home office as long as it is 300 or less square feet.

"Tax Strategy" from page 4

folks, the so-called Bush tax cuts are still in effect, which means federal income-tax rates of 10%, 15%, 25%, 28%, 33% and 35%. Only high-income individuals are affected by the maximum 39.6% rate. So if you convert this year, you'll pay today's relatively low rates on the extra income triggered by the conversion and completely avoid the potential for higher future rates on all the post-conversion income that will be earned in your new Roth account. That's because qualified Roth withdrawals taken after age 59½ are totally federal-income-tax-free.

The best candidates for the Roth conversion strategy are people who believe that their tax rates during retirement will be the same or higher than their current tax rates. If you fit into that category, please keep reading.

Consider A Multi-Year Conversion Strategy

Converting a traditional IRA with a relatively big balance, could push you into a higher tax bracket. For example, if you're single and expect this year's taxable income to be about $150,000, your marginal federal income tax bracket is "only" 28%. Converting a $100,000 traditional IRA into a Roth account this year would cause most of the extra income from converting to be taxed at 33%.

But if you spread the conversion over three years (which you are allowed to do), the extra income from converting would be taxed at 28% (assuming Congress leaves the current tax rates in place through 2019).

Never Fear, Mistakes Can Be Corrected: You Can Reverse An Ill-Advised Conversion

Another cool thing about the Roth conversion strategy is that you can always change your mind well after the fact. Believe it or not, you have until Oct. 15 of next year to re-characterize (reverse) a 2017 conversion. For example, say you convert a traditional IRA into a Roth account between now and year-end. Then the value of the converted account takes an unexpected nosedive. In this unhappy scenario, you would still have to pay extra 2017 income tax on value that later disappeared. ***Bad! Very Bad!***

Thankfully, that risk is mitigated by the fact that you have until Oct. 15, 2018 to re-characterize the converted account back to traditional IRA status. After the re-characterization, it's as though the ill-fated 2017 conversion never happened. Consequently you don't owe any extra tax from the now-reversed conversion. ***Good! Very Good!***

The Bottom Line

Relatively low current tax cost for converting, plus a chance to avoid higher tax rates in future years on income that will accumulate in your Roth account equals a continuing perfect storm for the Roth conversion strategy. However, you have to get it done this year to start reaping the tax-saving benefits.

That said, please don't get carried away. We can discuss and plan a strategy.