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ROTH IRA

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. TRADITIONAL IRA 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 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

See "Strategy" on Page 2 >

Mid Year 2017

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Jun 15 2nd guarter estimated tax payments due.

Sept 15 3rd guarter estimated tax payments due.

Sept 15 Deadline for extended S-Corporation and Partnership returns.

Deadline to establish a Simple IRA for self-employed or small businesses.

Extended Returns for

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

Tax Tips For You... Now!

Max Wages Subject to Social Security Tax

(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. 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.

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 taxpavers get a Federal tax refund every year. For many

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What About Tax Planning?

Capital Gains Tax

Capital Gains Tax:

at 20% under Trump's plan. The

Long-term capital gains and

GOP's plan would tax gains

50% exclusion (50% of

at ordinary rates with a

qualified dividends could be capped

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

Key proposed changes (at press time):

mean a significant shortage in Treasury funding. Thus, individuals

should be prepared for tax changes elsewhere to mitigate this loss in

Income Tax: Reduce the number of tax brackets from seven to three, & 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.

and **Preparation** For The **Year Ahead** Become **Increasingly Important**

Tax Planning

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%, passthrough entities to also

PLANNIN

the top rate of

Estate Tax: Trump and the

GOP both support

repealing the estate

tax. Trump's plan calls

35%, which works out to 17.5%

maximum).

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 as the

Tax Changes Could Be Significant Under New Laws 2016 Rates Trump's Proposal Income Tax Rates 10%, 15%, 25%, 10%, 25%, 35% 28%, 33%, 35%, 39.6% Long-Term Capital Gains and Qualified 0%, 15%, 20% Same Alternative 26%, 28% Repeal Minimum Tax 3.8% net investment Patient Protection & Affordable Care Act Taxes (AGI over 9% medicare \$200K Single / spital insurance tax \$250K Joint) Standard Deduction Single Married Filing Joint \$12,000 \$24,000 Estate Tax Repeal \$5,450,000 exclusion Appreciated assets held at death greater than\$10 million would be subject to capital

> Thanks to all of you for your xcellent 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.



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!

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The Social Security Administration

The IRS **Continues** To Offer A **Simplified Home Office Deduction**

of you, it's an easy way to save

See "Tax Tips" on Page 3 >



A Publication of Tax News & Tips™ Mid Year 2017 A Publication of Tax News & Tips™

April 18th Has Come & 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 relax information. Let's file as soon as we have all of your information. If you owe any additional tax, the IRS will add

to the bill. Still Searching For That Refund?

some interest and penalty

You may contact the IRS Website www.irs.gov at the "Where's my Refund?" Vink to check the status of your refund. Another option is calling the RS 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

What if I get a letter from the IRS? If you get a letter from the IRS, try not Audited? to panic, just call me. The letters can be confusing. **Your Chance** Don't risk making a simple Is Less Than 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.

"Strategy" from Page 4 >

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 591/2 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

 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.

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

Bad! Very Bad!



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.

Keep Me Posted!

Throughout 2017 <u>be alert fo</u> or changes in the members of your household

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The tax opinions are generalizations and may not apply to all taxpavers

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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 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



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-withholdingcalculator. 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,

• 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.

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 our home office as long as it is 300 or less square feet.

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.



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

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 vear. However, the student should file their taxes anyway, because if they had an

AGI when itemizing and

2016. Beginning in 2017,

everyone will be treated

equally. If you're 65 and

medical expenses.

taking a deduction in

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.



