Year End Tax Newsletter
2017

The following is our year end items of interest for 2017. It covers individual tax issues and not business tax issues. It **does not cover any new legislation affecting your 2018 taxes.** For business tax issues, see our separate **Business Tax Newsletter.**

Affordable Care Act

All Americans are affected by the Affordable Care Act (Obamacare). If you were covered by health insurance, then you will received Form 1095-A, 1095-B, or 1095-C from the insurance company or your employer. We will need all copies that you receive to prepare your tax return. If you were covered by health insurance and did not receive any of these forms, please check your employer or your insurance company.

Dependent children filing their own tax returns

Please alert your dependent children or college students NOT to file their own tax returns, without first checking with us. If they file their own tax return, you may not be able to claim them as dependents on your own tax returns AND, because of the rules related to the Affordable Care Act, allowing a child to file their own return, particularly a student, can cost the child and parent literally thousands of dollars in penalties and/or credits. In addition, you will not be able to use the generous education tax credits if your student dependent files a independent, claiming his/her own exemption..

Health Care Deductions

The Affordable Care Act reduced your deduction for medical expenses (including health insurance). Because the amount of your medical expenses must now exceed 10% of your adjusted gross income, instead of 7.5%, before you can deduct anything, we will see fewer deductions available for medical expenses unless you have substantial bills. By the way, the 10% rule doesn't apply to those who are over age 65 until 2017.

Additional Tax for Investment or High Income Taxpayers

If your income is high, you may be subject to an additional 0.9% Medicare tax on your wages and/or a 3.8% surtax on net investment income if yours is over $250,000 for married taxpayers or $200,000 for single taxpayers.

Foreign Accounts

The IRS is looking closely for offshore accounts. If you have an account, retirement account, or business interest with a value over $10,000 in a foreign country, or a foreign business ownership (not through a mutual fund), please let us know. There are substantial penalties for failure to disclose.

IRA and Roth IRAs

You may contribute to your IRA or Roth IRA for 2017 as long as you do it by April 16, 2018. If your income is over the threshold to make a deductible contribution to your IRA, you may contribute to a non-deductible IRA.

Your contribution may be as much as $5,500 plus an additional $1,000 if you're or over 50 years of age. If you participate in a retirement plan at work, the amount of your deductible IRAs is limited. If your income is over the threshold, phase outs also apply to deductible IRA contributions and to Roth IRAs.

If your income is over the threshold to make a contribution to a Roth IRA, you may still be able to contribute to your Roth, but it will be a two-step process, first contributing to a Non Deductible IRA and then converting it to a Roth IRA. But be careful as it is tricky and in certain circumstances, the conversion may be partially taxable. If you are contemplating doing this, consult with us BEFORE converting. See below for additional information on this topic.

Your contribution may be as much as $5,500 plus an additional $1,000 if you're over 50 years of age. If you participate in a retirement plan at work, the amount of your deductible IRAs is limited. If your high income is over the threshold, phase outs also apply to contributions to Roth IRAs.

IRA conversions to Roth IRAs

Roth Conversions – if you converted any retirement funds to your Roth IRA in 2017, you have six months to move those funds back to your retirement account to avoid paying income taxes. This strategy is especially good if the value of those funds is worth less today than they were when you made the transfer to your Roth.

Employer Plans: 401(k)s, 403(b)s, 457s, SIMPLE IRAs, etc.

The maximum contributions to 401(k)s, 403(b)s, 457s, and other retirement plans is $18,000 for 2017 in salary deferral plus an additional $6,000 in 2017 if you're, or over 50 years of age. For SIMPLE IRAs, you may contribute up to $12,500 plus $3,000 for 2017 if you're or over 50 years of age.

Saver's Credit

For 2017 if you contribute to your retirement plan at work or to a traditional IRA or Roth IRA and your income is lower than the income thresholds (less than $31,000 for singles in 2017 to less than $62,000 for married in 2017) you qualify for the Saver's Credit. You must be at least 18 years of age, not a full-time student, and not claimed as a dependent on someone else's tax return. Depending on your income, the tax credit is from 10% of your contribution to as high as 50% of your contribution, up to $2,000 maximum contribution. Eligible contributions to IRA accounts by the April 15, 2018 filing deadline count toward the 2017 Saver's Credit.

IRA/Retirement Plans Minimum Distributions for those age 70 ½ (RMD)

For those who are over 70 ½ years of age, you are required to take a **required minimum distribution (RMD)** each year. Make sure you take your distribution before 12/31/17 for tax year 2017. The penalties for not taking the distribution are severe.

Dividend and Capital Gains Investment Income

The lower 15% tax rates on long-term capital gains (held over 1 year plus 1 day) and qualified dividends are applicable to 2017. The capital gains rate for some investors is zero. The zero-percent rate is limited to taxpayers with capital gain income in the 10% to 15% income tax brackets. Capital gains rates are 20% for taxpayers in the highest tax bracket..

College Savings Accounts – 529 Plans

529 Plans allow you to contribute to a college account and if the funds are used for higher education, any amount you pull out is tax free. 529 Plans are clearly an excellent strategy for saving for higher education for family members. Many states offer deduction on their state income tax returns. Currently there are only seven states that have state income tax but do not allow deductions to their state 529 plans, California, Delaware, Hawaii, Kentucky, Maine, New Jersey, and North Carolina.

Kiddie Tax

The kiddie tax applies to dependents with investment income under the age of 19 and also includes dependents under the age of 24 who are full-time students. Income up to $1,050 is tax-free in 2017. The next $1,050 is taxed at 10%, and income above that amount is taxed at the parents' tax rate.

Gift Tax Exclusion

The annual exclusion for tax year 2017 is $14,000 for gifts to individuals who are citizens of the U.S. Any gifts to any one individual (except spouse) over this amount require that a gift tax return be filed. For gifts to spouses who are not citizens of the United States, a non-taxable gift is limited to $149,000 for 2017.

Charitable Contributions (cash or check)

Both charitable contributions in the form of cash or check require a receipt from the charity. This means that if you attend church on Sunday and put $10 cash in the collection plate, you cannot take a deduction without a receipt from your church. If you pay by check, your canceled check is your receipt unless the total of your contributions is $250 or more. Because of recent tax court cases, the best practice is to obtain a receipt for every donation. The receipt **must state** "that no goods or services" were offered by the charitable organization.

Non-Cash Charitable Contributions (NCC)

Don't forget that non-cash charitable deductions require documentation and if the value of your donation exceeds $250, a detailed receipt from the charity. You cannot simply say "3 bags of clothing. If your TOTAL NCCs exceeds $500, you will need to fill in our NCC or NCCS organizer, on our website.

http://c21444505.preview.getnetset.com/files/13-non-cash-charitable-contributions1.4.17.pdf

http://c21444505.preview.getnetset.com/files/14-nccs-statement.pdf

Charitable Travel

You may deduct local charitable mileage at 14 cents per mile, if there is "*no* significant element of personal pleasure."

Unreimbursed Employee Business Expenses

For those who deduct expenses related to your employment, the IRS and NYS is actively auditing these deductions. Labor laws state that if you incur expenses related to your employment, your employer is required to reimburse you. If your expenses are reimbursable by your employer and you fail to request reimbursement, you do not qualify for any deduction.

Use Tax

If you made a purchase on the Internet and did not pay sales tax, you are required to pay sales tax to your state when you file your tax return.

Home equity interest and refinancing

The total of your home equity debt is limited to $100,000 for you to be able to deduct the interest. Any interest paid on loans that exceed $100,000 is considered personal interest and is not deductible, unless the loan proceeds were used to improve or add to your home.

Educator Expense Deduction

For credentialed teachers, pre K through grade 12, the educator expenses deduction of $250 is deductible and it includes "professional development expenses."

Estate Taxes

In 2017, the Estate tax applies only to estates valued at more than $5.49 million. The maximum estate tax rate is 40%.

Flexible Spending Accounts (FSAs), Cafeteria Plans, Section 125 Plans

If your company offers these plans, the enrollment period is often times toward the end of the year. Remember that whatever amount you elect to contribute to your plan comes out of your wages tax-free. You pay no income tax, social security tax, or Medicare tax on the amount you contribute for your medical expenses for 2017 (*not* including over-the-counter drugs unless you have a prescription) and/or dependent care expenses (not including overnight camps). The key to how much you elect to contribute either for dependent care or medical expenses is to *not* contribute more than you will spend in a calendar year, or, depending on the plan, a calendar year plus a 2 months 15 days grace period. Should you *not* spend what you contributed, you forfeit that amount for that calendar year. The IRS has recently modified the regulations to allow $500 to be carried over to the next year. Both the grace period and the carryover are optional and plans cannot allow both.

Tax Credit for First Four Years of College

The American Opportunity Credit of up to $2,500 is designed to help parents and students pay part of the cost of the first four years of college. The credit is available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. Tuition, related fees, books, equipment (including laptop computers) and other required course materials generally qualify.