

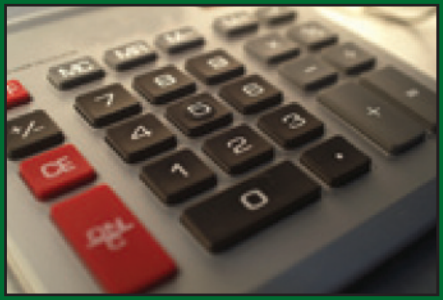


Route 422 Business Tax Planning and Preparation Services Guide

2017 STATE OF THE FEDERAL TAX CODE; TAX-SAVING TIPS AND UPDATES — PART 2

Provided by Ryder & Company CPA

Uncertainty surrounding the 2017 tax-filing season continues to impact tax planning and tax preparation considerations. With or without the proposed tax reform, your tax returns will still need to be filed. This is an update regarding important elements of filing your 2017 tax return as they are presently known. Should tax reform occur, turn to your personal CPA or the PICPA for those specific changes that will impact your filing season.

Tax reform is before Congress, but as it stands we still have more questions than answers. To help get you ready should it occur, here is what is presently known about the status of tax reform.

Child and Education-Related Tax Breaks

Child Tax Credit: The Child Tax Credit is $1,000 for each qualifying dependent child who is under age 17 (this includes permanently disabled children). The credit may be partially refundable. The credit phases out, however, when modified AGI exceeds certain levels.

Child and Dependent Care Credit: Parents who, in order to work, pay for the care of a dependent under age 13 (whether the care is provided outside or inside the home) may be eligible for a nonrefundable tax credit of between 20 percent to 35 percent of qualifying expenses, depending on income level. For 2017, the maximum amount of qualifying expenses on which the credit can be claimed is the lesser of the amount of qualifying expenditures ($3,000 for the care of one dependent or $6,000 for at least two qualifying children) or the taxpayer's earned income.

Earned Income Tax Credit: If a taxpayer earned income within certain thresholds, there may be a refundable earned income tax credit (EITC). While subject to a variety of qualifications, EITC may be available to those with qualifying dependents and those considered "childless." Some of the qualifications include filing status, number of qualifying children, amount of earned income, AGI amount, and earned income of the "childless."

Higher Education Tax Benefits

American Opportunity Tax Credit: Up to $2,500 per qualifying student for qualifying expenditures is available for each of the first four years of college, and up to 40 percent of the credit is refundable if total tax is cut to zero.

Additionally, a Lifetime Learning Credit of 20 percent of up to $10,000 of eligible expenses per year is available for undergraduate, graduate, and professional degree courses. Both credits phase out for higher-income individuals, and you cannot claim both credits for the same student in the same tax year.

There is also a deduction for AGI, available even if you do not itemize, of up to $2,500 for qualifying student loan interest, although it also phases out for higher income taxpayers. Instead of using education credits, an alternative tuition deduction of up to $4,000 is available for 2017, subject to certain income limitations.

An adjustment to K-12 teachers' gross income of a maximum of $250 is also available.

Tax Considerations for Investors

Capital Gain and Loss Planning: Planning when to realize capital gains or losses can be extremely beneficial. Such planning should consider the continued risk (or benefit) of holding an investment longer, current and future cash needs, the "wash sale" rules that disallow certain losses, and current vs. future tax rates.

For 2017, net capital losses (including any net capital loss carryovers) are still fully deductible against current-year capital gains. If capital losses exceed capital gains, you can deduct up to $3,000 in net capital losses against ordinary income ($1,500 if married filing separately). Any remaining capital losses can still be carried over indefinitely to successive tax years to offset future capital gains.

Rates on Capital Gains and Dividends: The preferential tax rate is 0 percent to the extent the income would have been taxed in the 10 percent or 15 percent tax rate bracket if it were ordinary income; 20 percent to the extent the income would have been taxed in the 39.6 percent tax rate bracket if it were ordinary income; and 15 percent for all other taxpayers. (Note, there are different rates on gains from certain assets such as collectibles, depreciable real property, and qualified small-business stock.) Interest income and short-term capital gains (held 12 months or less) continue to be taxed at ordinary rates, currently as high as 39.6 percent.

Net Investment Income Tax: The health care law brought with it an additional 3.8 percent tax on certain net investment income if a taxpayer's modified AGI exceeds certain threshold levels. For 2017, these levels are $250,000 for married filing jointly (or $125,000 if married filing separately) and $200,000 for all other filing statuses. In general, net investment income includes, but is not limited to, interest, dividends, capital gains (after offset of capital losses), rental and royalty income, certain annuities, and income from businesses that are passive activities to the taxpayer, including gains on their sale.

The net investment income tax will not apply to any amount of gain that is excluded from gross income for regular income tax purposes, such as the exclusion of the first $250,000 ($500,000 in the case of a married couple) of gain recognized on the sale of a principal residence. To calculate your net investment income, your investment income is reduced by certain expenses properly allocable to the income, such as investment interest expense, investment advisory and brokerage fees, expenses related to rental and royalty income, and state and local income taxes properly allocable to items included in net investment income.

Kiddie Tax: Children's unearned income may be subject to tax at the parents' highest applicable marginal rates for their unearned income. This is known as the "Kiddie Tax." Any net unearned income over $2,100 will be taxed at the applicable parental rates if the child is in one of these three categories as of year-end: under age 19; age 19 and does not have earned income exceeding 50 percent of his or her support; and age 19 through 23 and is a full-time student who does not have earned income exceeding 50 percent of his or her support. The amount exempt from tax and the amount taxed at the child's rate is $1,050.

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Other Tax Considerations

Alternative Minimum Tax (AMT): Talk of repealing the AMT has occurred continuously since it was enacted in 1976. AMT generates $38 billion, or 2.5 percent, of all individual tax revenue. This tax isn't going anywhere soon! AMT exemptions for 2017 are $54,300 for single and head of household filers; $84,500 for married filing jointly and qualifying widows or widowers; and $42,250 for married filing separately. The exemption amounts are phased out at 25 cents for each dollar of AMT income over the thresholds.

Section 179 Expense: Section 179 expense election for acquiring new or used tangible personal property in a business is $500,000. The limitation is reduced dollar-for-dollar if acquisitions exceed $2.02 million, and is eliminated above $2.5 million, but limited to the business's taxable income.

As of this writing, progress on tax law changes has been slowed by congressional differences of opinion regarding, among other things, expanding and extending Section 179 expensing of capital improvements versus those who think this small-business benefit is expensive and not sufficiently "stimulative."

Bonus Depreciation: Bonus depreciation is available through 2019 for up to 50 percent of qualified business property placed in service during the period of 2015 through 2017. Bonus depreciation is reduced in 2018 to 40 percent, and reduced again in 2019 to 30 percent.

Note: This resource was prepared in September 2017. Additional legislation may be passed before year-end. The PICPA worked carefully to prepare this guide, but it cannot be used as official tax advice that would protect taxpayers from penalty due to the complexity of tax law, individual taxpayer facts and circumstances, and changes enacted after this writing. We encourage taxpayers to seek advice from our member CPAs about the items contained in this resource, as well as other tax issues and planning opportunities.

Controller onDemand

As a business owner, are you getting what you need to grow your business? Most bookkeepers and/or staff accountants are good at entering data into your current accounting system, but their expertise stops there. To grow your business, you need more than timely data entry – you need to KNOW your numbers.

Just as you cannot lose weight if you do not monitor your weight and what you eat, you cannot grow your business if you aren't looking at your numbers regularly. When you review your numbers monthly, you see what products/services are making money and what the business is spending money on and, most importantly, why!

QuickBooks Online Certified, Controller OnDemand helps businesses in the Tri-county area evaluate their accounting processes, procedures and people — even your software. We develop a more efficient system that fits your business, train your current staff to use it and even transition your books from one system to another platform if needed. We also offer clients an easy-to-understand "Know Your Numbers" Financial Report service. This is a valuable tool of key metrics for your business.

To get a handle on your numbers, contact afaust@controller-ondemand.com or call 484.366.6202 today.