
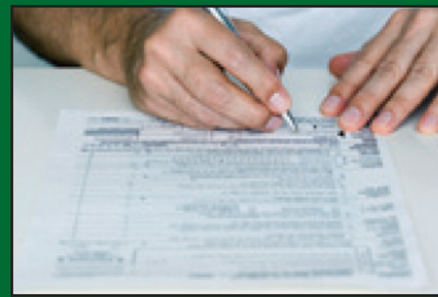

ROUTE 422 BUSINESS TAX PLANNING AND PREPARATION SERVICES GUIDE

2017 STATE OF THE FEDERAL TAX CODE; TAX-SAVING TIPS AND UPDATES — PART 1

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.

Filing Your 1040 – The Basics

Filing Status: Taxpayers can file as single, married filing jointly, married filing separately, head of household, or qualifying widow(er) if the circumstances legally support the status chosen. If you are married and filing jointly, you can take advantage of certain tax deductions, tax credits, and benefits not available to couples filing separately. Generally, a status of married filing separate (MFS) is the least helpful. Unmarried taxpayers may file as single or, if they qualify, head of household.

Rates: The top 2017 income tax rate is presently 39.6 percent for single taxpayers making more than $418,400, heads of households making more than $444,550, and married filing jointly taxpayers and surviving spouses making more than $470,700 (or $235,350 if married filing separately). Below that, the ordinary income tax rates are presently 10, 15, 25, 28, 33, and 35 percent, with different brackets for each type of filer's income threshold.

Most proposed tax legislation includes tax bracket reduction as a goal. Elimination of four of the seven individual bracket rates, with the highest rate to be set at 35 percent, was in the reform proposal released in September 2017, and likely remains a priority. Many factors will affect the likelihood of this proposal being adopted.

The Affordable Care Act (ACA) still exists. As of this writing, the ACA is the law of the land, which means it continues to include additional Medicare taxes on earned and unearned income. The Medicare contribution tax rate on earned income – such as wages, compensation, or self-employment income – continues to be an additional 0.9 percent, if that income exceeds certain filing thresholds such as for married filing jointly filers with income of $250,000 ($125,000 if married filing separately) and $200,000 for all other taxpayer filing statuses. For unearned income, see the "Net Investment Income Tax" section in this resource.

Exemptions: For 2017, the exemption amount has remained constant at $4,050 for yourself, your spouse, and each of your dependents who are qualifying children or relatives. Proposed regulations update the definition of a dependent eligible for exemption to include a child who has been lawfully placed with a taxpayer for adoption. Exemption amounts are subject to phase outs beginning at $261,500 (single), $287,650 (head of household), $156,900 (married filing separately), and $313,800 (married filing jointly); with a complete phase out at $384,000 (single) and $436,300 (married filing jointly).

Deductions: The standard deduction amounts for 2017 have been indexed slightly higher and are as follows: $6,350 if single or married filing separately, and $12,700 for married filing jointly or qualifying widow(er), and $9,350 for head of household.

Taxpayers who are 65 and older or are blind receive an additional standard deduction of $1,250 if married and filing jointly or separately, or $1,550 for those filing as single or head of household.

For individuals claimed as a dependent on another tax return, the 2017 standard deduction is the greater of $1,050 or $350 plus earned income, not to exceed the standard deduction amount for those who are not dependents.

The American Tax Relief Act (ATRA) of 2012 reduced itemized deductions by 3 percent of any excess adjusted gross income (AGI) over $261,500 (single), $287,650 (head of household), $156,900 (married filing separately), and $313,800 (married filing jointly). ATRA also increased the AGI limitation floor from which you can claim unreimbursed medical expense deductions from 7.5 percent of AGI to 10 percent of AGI before such deductions can be claimed. Previously, only those over 65 could use the 7.5 percent floor; however, this has been removed for all taxpayers. The 2 percent floor for unreimbursed business expenses, the 10 percent floor for casualty losses in excess of insurance reimbursements, and the standard charitable contribution limitations still apply.

Mileage and vehicle costs can be significant considerations in computing itemized deductions. The 2017 business mileage rate is $0.535 per mile. The medical and moving mileage rate is $0.17, and the charity mileage rate is $0.14 per mile.

Retirement Savings Tax Breaks

IRAs: You may contribute up to $5,500 to a 2017 traditional or Roth IRA. Those 50 or older at year-end can make an additional "catch-up" contribution of $1,000. Contributions to traditional IRAs may be deductible depending on several factors, including filing status. The deductible amounts are phased out at higher levels of AGI. Nondeductible contributions are allowed up to applicable limits. Distributions are fully taxable as ordinary income, unless there were historical nondeductible contributions.

Roth IRA contributions are not deductible, but earnings accumulate tax-deferred and may be withdrawn tax-free and penalty-free if you meet certain requirements. Allowable contributions, however, are phased out at higher levels of AGI, depending on filing status.

Employer-Sponsored 401(k)s: Pretax contributions to traditional 401(k) plans reduce federal, but not necessarily state or local, taxable wages. Matching contributions and income earned within your plan are tax-deferred until distributed. The employee contribution limit for 2017 is $18,000. Employees age 50 or older may make an additional catch-up contribution of $6,000. Distributions are fully taxable as ordinary income.

Roth 401(k) contributions are made with after-tax dollars. Earnings accumulate tax-deferred, and may be withdrawn tax-free and penalty-free if you meet certain requirements. Taxpayers are generally allowed to roll over certain pretax qualified retirement accounts such as traditional IRAs and 401(k)s to designated Roth IRA accounts. Such rollovers are generally taxable on the amount of traditional pretax contributions.

Due to the complexity of the rules related to retirement plans, you should consult your CPA if you are receiving, or are about to receive, retirement account distributions.

Saver's Credit: To encourage taxpayers to contribute to qualified retirement plans, Congress provides a "saver's credit." For individual elective contributions up to $2,000, there is a credit up to 50 percent, for a maximum credit of $1,000. The credit is phased out for higher-income taxpayers.

Tax Breaks and Other Considerations for Homeowners

Interest, Points, and Certain Taxes: Home mortgage interest on up to $1million of home-acquisition loans secured by your principal residence or second home is fully deductible. You also may deduct interest on an up-to- $100,000 home equity loan or line of credit. Points paid to secure a loan for the purchase or improvement of a principal residence usually are fully deductible in the year paid. However, points paid to refinance an existing mortgage must generally be amortized and deducted over the life of the loan. Real estate taxes and state and local property taxes on tangible property are also deductible, as are your state and local income taxes.

There has been speculation about the elimination of the home mortgage interest and real estate tax deductions. But as of this writing, President Donald Trump has publicly stated he is in favor of keeping these deductions.

Exclusion of Certain Capital Gains upon Sale: You can still exclude up to $250,000 in gains ($500,000 if married filing jointly) on the sale of your home. To qualify, you generally must have owned and used your home as a principal residence for at least two years during the five-year period ending on the date of sale. Limitations may apply if you had any "nonqualified use."

First-Time Homebuyer Tax Credit Pay Back: This tax issue from several years ago is still around, and it can be easily missed when switching tax preparers. Taxpayers who claimed a first-time homebuyer credit on a home acquired in 2008, 2009, or 2010 may have to repay the credit under certain circumstances, including a subsequent sale to a related party, an abandonment or destruction of the home, or conversion of the home to a business or rental property.

Energy Tax Credit Incentives: There is a 30 percent tax credit on the cost of alternative energy equipment, available in 2017 through 2019. Qualified equipment includes solar hot water heaters, solar electric equipment, and wind turbines. There is also a personal (non-business) energy property credit of 10 percent of the cost of qualified energy-efficient improvements up to a maximum lifetime limit of $500.

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.