

Enclosed please find your organizer for the 2017 filing season. The organizer will assist you in gathering your tax information by showing you what was reported on your 2016 return. As this newsletter goes to press, perhaps the most sweeping changes to income taxation since 1986 have recently been signed into law. The vast majority of these changes will impact 2018 and beyond. A summary of the changes is provided on our website. We will be happy to discuss these changes with you, but please understand that many of these changes are subject to interpretation by the IRS and possibly the courts. That guidance will not be published for quite some time. We can provide high level overviews of the changes, but detailed analysis may not occur until this summer when IRS regulations are issued. Below we have highlighted some tax changes that will impact 2017 and year-end reminders. If you should have any questions, please don't hesitate to contact us.

Like last year, most individuals are required to have minimum essential health insurance coverage or pay a penalty. Included in this packet of information is an Affordable Care Act checklist which you must complete, sign and return to us with your other tax information. **We also need copies of any 1095 forms you receive.**

We need to warn you about numerous scams perpetrated by individuals attempting to steal your personal identity information. Many of these scams take the form of emails requesting information from you. Do not open unexpected emails that appear to be from the IRS, nor click on links to websites unknown to you. And even more disturbing are phone calls from individuals falsely representing that they are calling from the IRS and demanding information and even immediate payments. Do not respond to these situations. The IRS will not attempt to contact you in these manners without mailed correspondence in advance. If you are faced with one of these situations, do not provide any information and call our office. We will assist you in determining the legitimacy of any proposed actions.

### Important Tax Law Items - Individual

- The standard mileage rate for business use of a vehicle was 53.5 cents-per-mile for 2017, and 54.5 cents-per-mile for 2018.
- The maximum rate for long-term capital gains for 2017 remains at 15% for many taxpayers; however, if you are in the 39.6% bracket (see above) your maximum rate is 20%. Qualified dividend income continues to qualify for capital gain treatment in 2017.
- An additional Medicare tax of 0.9% was added for 2013 and remains in effect. This tax applies to wages, self-employment income, and railroad retirement compensation **in excess of \$250,000** (married filing jointly), \$125,000 (married filing separately), and \$200,000 (any other filing status).
- Similarly a Net Investment Income (NII) tax of 3.8% was added for 2014 which also remains. This tax applies to the smaller of your net investment income or your modified AGI **in excess of \$250,000** (married filing jointly and qualifying widow(er)), \$125,000 (married filing separately), and \$200,000 (any other filing status). NII generally consists of interest, dividends, capital gains, passive investments and rental income. However, there are exceptions on rental income for "real estate professionals" and in self-rental situations.
- Rental properties require more disclosures than in the past. **For each property**, the physical location, the type of property (single family, duplex, commercial, etc.), the number of days rented, the number of days used for personal purposes, and any Form 1099-Ks received must be reported.
- Reminder – All charitable deductions of any amount must have a receipt. Any individual contribution over \$250 must also have an acknowledgement letter from the charity. Note: most "go-fund-me" donations are not deductible because the contribution is not to an IRS recognized charity. Also, the IRS is intensifying efforts to audit non-cash donations so be sure to retain documentation like detailed receipts and photographs.
- We are required to report on your income tax return the amount of any distributions from a health savings account (HSA), even if the funds were properly used for qualified medical costs. Please provide us with a copy of the Form 1099-SA from your HSA administrator.
- The IRS is now requiring taxpayers to obtain Form 1098-T for higher education expenses in order to claim education credits and/or deductions. Please provide us a copy of this form if you wish to claim these expenses on your 2017 income tax return.
- Distributions from 529 plans are tax-free when used for tuition, room and board, fees, books, computers and related software. Also keep in mind that Indiana "College Choice" plans are eligible for a credit of 20% of the contribution up to a maximum credit amount of \$1,000.
- Reminder - beginning with 2011 returns, Indiana allows a deduction of up to \$1,000 for K-12 dependents in private or home schools for expenses related to tuition, books, etc.
- Indiana no longer offers a lower non-resident county income tax rate. Anyone subject to county income tax will pay the same resident rate.
- A teacher's credit (similar to the federal tax break) remains in effect for 2017 equal to the lesser of \$100 or the total amount expended for classroom supplies during the year.

- Planning tip on IRA's: Name specific beneficiaries to allow distributions over the beneficiary's life expectancy. If the IRA simply gets distributed through an estate the funds must be distributed (and taxed) within five years from date of death.
- The gift tax exclusion amount is \$14,000 per donee for 2017. The federal estate tax exclusion is currently \$5,490,000 for 2017. Indiana's inheritance tax has been repealed for individuals who pass away after 12/31/2012.
- US taxpayers with foreign financial accounts to be aware that that the FinCEN 114 (formerly known as the FBAR) is due April 15, 2018. This form is required if the account value exceeds \$10,000 at any time during the year.

## **Business Deductions and Law Changes**

As in previous years we urge you to develop a mindset that you may be asked by taxing agencies to produce your documentation when organizing your records this year end. With that in mind, please take a moment to review the items below and please don't hesitate to contact us regarding specific questions about your business.

- With Notice 2015-82 the IRS raised the threshold for items that required capitalization. The new rules require examination of all repair or maintenance expenditures over \$2,500. Each such item may be written off in total for 2017 if:
  - You expect to perform the activity more than once over the item's tax life; AND
  - The maintenance keeps (rather than puts) the property in operating condition; AND
  - The need for the maintenance results from your own use (not a prior owner's use).
- The Code §179 expensing election for equipment is \$510,000 for 2017 but the Indiana limit remains only \$25,000. In addition, 50% "bonus" depreciation deductions are available for eligible items purchased as new during for 2017.
- **Be sure to file 1099 forms** for contractors over \$600, for rental payments or attorney fees paid. Intentionally disregarding this responsibility is a \$530 penalty for each 1099 not filed. Also note that the filing deadline to submit copies to the IRS and the recipient has advanced to January 31, 2018.
- All business expenses must be ordinary and necessary to be deductible. In addition, deductions reported on an income tax return must be verifiable. To corroborate an amount a taxpayer must have a receipt that indicates the vendor, amount, date and a description of the item or service purchased. Merely having a credit card statement (including American Express) that details the charges is not enough. You must have receipts. The backup documents must be maintained for as long as the statute of limitations remains in effect. **We recommend keeping the information for a minimum of six years.**
- Business meals with clients, customers or employees may be deductible only if the meal is (1) directly related to the active conduct of your business and (2) a substantial and bona fide business discussion takes place. Proof that these requirements were met must be documented on the receipt or in a separate journal. Meals where only business owners and their families are present are only deductible when traveling away from home. "Away from home" means requiring an overnight stay.
- Reimbursements to employees for business deductions must fall under an "accountable plan." This means that employees must provide receipts to their employer for the expenses. Reimbursing an employee without substantiating the expense will require treating the amounts as wages, subject to all the related payroll tax burdens.
- The personal portion of automobiles provided to employees must be included in their compensation unless they reimburse the employer for the personal usage. **Contemporaneous logs of automobile usage are required to validate the deduction.** The log should include dates, customers/vendors visited and the business purpose for each trip as well as the total miles driven on the vehicle during the year.

## **Other**

In an effort to protect taxpayer personal information the IRS is now requiring that we obtain a written consent signed by our clients in order to release any information to a third party. We are happy to accommodate your request to release copies of tax returns, financial statements or other documents to banks, insurance companies and others, but keep in mind that we will need the consent form before processing your request.

Gillam & Zetzel will continue to provide clients with electronic copies of tax returns (in a PDF format), however paper copies are available if you prefer. If the electronic option is chosen, we will email the returns to you, or provide them on a portable storage device. All electronic returns will be password protected, and can be read with a free Adobe PDF application.

Thank you for the opportunity to be of service to you!

*Happy Holidays from everyone at Gillam & Zetzel, Inc.*