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See our webpage for current tax information and helpful hints.

Believe it or not, it's almost that time of year again!
Time for us to help you with the challenges of your income tax returns.

The tax laws continue to provide opportunities for the wise and traps for the unwary. Often, tax savings can be achieved by taking action before the year-end. The information and strategies discussed herein may or may not be appropriate for your situation. Remember to consult with your tax professional before implementing them.

New Tax Laws

The Protecting Americans from Tax Hikes (PATH) Act of 2015 was signed into law on Dec. 18, 2015. Some important tax provisions have been made permanent, while others were extended through 2016 or 2019. The new law also adds in other provisions to combat erroneous credit claims related to education, child tax and earned income tax credits.

Section 529 plans. Under prior law, the purchase of computer technology or related equipment was a qualified education expense only if it was required for enrollment or attendance at an eligible institution. The PATH Act provides that "qualified higher education expenses" now include expenses for the purchase of computer or peripheral equipment, software, or Internet access and related services, if the equipment, software, or services are to be used primarily by the beneficiary during any of the years he/she is enrolled at an eligible educational institution.

IRS to delay some refunds. Section 201 of the PATH Act mandates that no credit or refund for an overpayment for a taxable year shall be made to a taxpayer before February 15 if the taxpayer claimed the Earned Income Tax Credit or the Additional Child Tax credit on the return. This change begins 1/1/17, and may affect some returns filed early.

- To comply with the law, the IRS will hold the refunds on EITC and ACTC-related returns until February 15.
- This allows additional time to help prevent revenue lost due to identity theft and refund fraud related to fabricated wages and withholdings.
- The IRS will hold the entire refund. Under the new law, the IRS cannot release the part of the refund that is not associated with the credits.
- The IRS will begin accepting and processing tax returns once the filing season begins. That will not change.
- The IRS still expects to issue most refunds in less than 21 days, though IRS will hold refunds for EITC and ACTC-related tax returns filed early in 2017 until February 15 and then begin issuing them.

Rollovers to SIMPLE accounts. For contributions after December 18, 2015, the PATH Act now allows a taxpayer to roll over amounts from an employer-sponsored retirement plan to a SIMPLE IRA, if the plan has existed for at least two years.

Specifically, a rollover may be made from a traditional IRA, a 401(k) plan, a qualified annuity under Code Sec. 403(a)(4), a 403(b) tax-sheltered annuity, or a governmental section 457 plan.

Direct IRA transfers to charities. Effective for distributions made in tax years beginning in 2015, the PATH Act retroactively revives and permanently extends the ability of individuals at least 70½ years of age to exclude from gross income qualified charitable distributions from IRAs of up to $100,000 per year.

Using your IRA distributions for charitable giving could save you more than taking a charitable deduction on a normal gift, because the distributions won't be included in income at all, thus lowering your AGI. Also, the distribution to charity will still count toward the satisfaction of your required minimum distribution for the year.

State and local sales tax deduction. Effective for tax years beginning after 2014, the PATH Act retroactively revives and makes permanent the option to claim an itemized deduction for State and local general sales taxes in lieu of an itemized deduction for State and local income taxes.

Child tax credit. Under Code Sec. 24(a), for each qualifying child of a taxpayer for whom the taxpayer is allowed a dependency deduction, a $1,000 child tax credit is allowed against the taxpayer's income tax.

The child tax credit is not allowed to a taxpayer for any qualifying child unless the taxpayer includes the child's name and taxpayer identification number (TIN) on the tax return for the tax year.

Under the old rules, the law didn't include rules about when the qualifying child's and taxpayer's TINs had to have been issued. Therefore, it was possible to claim the child tax credit on an amended return or a late-filed return using a TIN that was issued after the due date of the return.

The 2015 PATH Act provides that the child tax credit is not allowed to a taxpayer for any qualifying child if the qualifying child's TIN was issued after the due date for filing the return for the tax year.

Residency rules eliminated for ABLE accounts. A qualified ABLE account is a tax-advantaged account established under a state's qualified ABLE program and owned by a designated beneficiary who's disabled or blind. Only one account is allowed per beneficiary, and annual contributions are limited to the amount of the annual gift tax exclusion. Contributions are non-deductible, but amounts in the account accumulate on a tax-deferred basis. Distributions are tax-free up to the amount of the designated beneficiary's qualified disability expenses.

For tax years beginning in 2015, the PATH Act allows ABLE accounts to be established in any State. This will allow individuals setting up ABLE accounts to choose the State program that best fits their needs, such as with regard to investment options, fees, and account limits.

New exclusion for wrongfully incarcerated. The PATH Act also allows an individual to exclude from gross income civil damages, restitution, or other monetary awards that the taxpayer received as compensation for a wrongful incarceration.

Form 1098-T requirements. Higher education institutions must provide a return to IRS and a statement to the student, that indicate, among other things, the amount paid by or billed to the student for qualified tuition and related expenses for the tax year.

Under the 2015 PATH Act, institutions required to file Form 1098-T must, among other reporting requirements, include the aggregate amount of payments received for qualified tuition and related expenses with respect to the individual for whom the return is being filed.

Additional Information

Standard mileage rate. Taxpayers can use the standard mileage rate (in lieu of actual expenses) in computing the deductible costs of operating automobiles owned or leased by them (including vans, pickups or panel trucks) for business purposes.

This rate is also used as a benchmark by the federal government and many businesses to reimburse their employees for business travel.

The following rates are applicable for the 2016 tax year:

Business	$.54
Medical	.19
Moving	.19
Charitable	.14

If you are an employee with unreimbursed travel, you may deduct an amount computed using the standard mileage rate only as a miscellaneous itemized deduction, subject to 2% floor of adjusted gross income.

Residential Energy Efficient Property Credit. Individual taxpayers are allowed a personal tax credit, known as the residential energy efficient property (REEP) credit, for expenditures for installing certain energy-efficient property in the taxpayer's residence.
As originally intended, the REEP credit for fuel cell property, wind energy property, and geothermal heat pump property will expire for property placed in service after December 31, 2016.

The 2016 Consolidated Appropriations Act extends the REEP credit for five years, so that it applies to property placed in service before January 1, 2022, but only for qualified solar electric property expenditures and qualified solar water heating property expenditures.
The “applicable percentage” of qualified solar electric property expenditures and qualified solar water heating property expenditures will be allowed as a REEP credit for post-2016 years. A phase-out applies. It starts at 30% for purchases from 1/1/17 to 12/31/19 and will decrease to 26% & 22% for later years.

Social Security wage base for 2017. The Social Security Administration (SSA) recently announced that the maximum earnings subject to the Social Security component of the FICA tax will increase from $118,500 to $127,200 for 2017.

This means that for 2017, the maximum Social Security tax that employers and employees will each pay is $7,886.40 ($127,200 x 6.2%). A self-employed person with at least $127,200 in net self-employment earnings will pay $15,772.80 ($127,200 x 12.40%) for the Social Security part of the self-employment tax. The Medicare component remains 1.45% of all earnings, and individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly) will pay an additional 0.9% in Medicare taxes.

Year-End Planning

Year-end planning is always complicated by the uncertainty of what the following year may bring, but this year presents an even bigger challenge. A combination of events – including a number of tax provisions that are scheduled to expire at the end of 2016 make it even more difficult to plan for the future.

With that in mind, here are a few steps that you might consider to save you tax dollars if you act before the end of the year. Please note that all actions may not apply in your situation.

- If you become eligible in December of 2016 to make health savings account (HSA) contributions, you can make a full year's worth of deductible HSA contributions for 2016.

- If you are thinking of installing energy saving improvements to your home, such as certain high-efficiency insulation materials, do so before the close of 2016. You may qualify for a “nonbusiness energy property credit” that won't be available after this year, unless Congress reinstates it.

- If you converted assets in a traditional IRA to a Roth IRA earlier in the year and the assets in the Roth IRA account declined in value, you could wind up paying a higher tax than is necessary if you leave things as is. You can back out of the transaction by re-characterizing the ROTH conversion - that is, by transferring the converted amount (plus earnings, or minus losses) from the Roth IRA back to a traditional IRA via a trustee-to-trustee transfer. You can later reconvert to a Roth IRA.

- For 2016, the "floor" beneath medical expense deductions for those aged 65 or older is 7.5% of adjusted gross income (AGI). Unless Congress changes the rules, this floor will rise to 10% of AGI next year. Taxpayers age 65 or older who can claim itemized deductions this year, but won't be able to next year because of the higher floor, should consider accelerating discretionary or elective medical procedures or expenses.

- You may be able to save taxes this year and next year by applying a bunching strategy to "miscellaneous" itemized deductions, medical expenses and other itemized deductions.

- Consider using a credit card to pay deductible expenses before the end of the year.

- Postpone income until 2017 and accelerate deductions into 2016 to lower your 2016 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2016 that are phased-out over varying levels of AGI.

- Realize losses on stock while substantially preserving your investment position. For example, you can sell the original securities and then buy back the same securities at least 31 days later.

- Check your withholding and estimated tax payments. If you're in danger of an underpayment penalty, try to make up the shortfall by increasing withholding on your salary or bonuses.

- You can give up to $14,000 to as many people as you wish in 2016, free of gift or estate tax. You get a new annual gift tax exclusion every year, so don't let it go to waste. If you are married, you and your spouse can elect to "gift split" and use your exemptions together to give up to $28,000 per beneficiary. *Gifts to individuals aren't deductible for income taxes.*

PRIVACY POLICY

We do not disclose any non-public personal information about our clients or former clients to anyone, except as instructed to do so by such clients, or required by law. We restrict access to non-public personal information and we maintain physical, electronic, and procedural safeguards to guard your personal non-public information.

Office News

Debbie & Brian now have 3 grandchildren and two of their children are in the process of new home ownership. They already helped the oldest move, but the youngest won't be closing the deal until the end of the year. Building up lots of muscles!!

Susan is completely retired and loving life in the North Woods of Wisconsin. She now does the reading that Debbie wishes she had time for. Susan & Jerry added grandchild #7 to their family in 2016.

Connie was the newest addition to our staff. 2016 was a challenging first tax season with our firm and she is waiting for the next tax season to begin.

Susie is getting everything ready for the new season, including sending out this newsletter.

Mari just got back from a short trip out to Colorado, which she took between her seasonal jobs.

Our biggest news is that Connie and Mari just got done "sprucing" up the place. They have been painting and re-arranging things upstairs for the last couple of weeks, which was a lot of hard work. We needed some fresh paint after 15 years in this building. *It's hard to believe that it has been that long since we moved here.*

In observance of the holidays, our office will be closed on the following days, so if you have year-end questions, make sure to get them in early.

Friday, December 23 Monday, December 26
Friday, December 30 Monday, January 2, 2017

Thank you for your past business. Without you we wouldn't have celebrated our 23rd anniversary this fall. Have a wonderful holiday season, with your friends & family. We will see you soon.