TaxTips

Keeping You Informed • Winter 2017

Your Trusted Advisor

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Our mission is to partner with businesses and families to achieve financial success through Biblical principles in order to further God's kingdom.

Did you know not all income is taxable?

There are certain types of income that are not taxed and do not have to be reported on your tax return. These include child support, military allowances, veteran's benefits, welfare benefits, Social Security Supplemental Income benefits (SSI), and workers' compensation. Also, a cash rebate that you received for purchases, such as a new car or appliances, is not considered taxable income.

Automobile Expenses

Which is better, deducting the standard mileage rate or claiming actual expenses?

With the standard mileage at 53.5 cents per mile for 2017, it might be time to revisit what yields the more substantial deduction—the standard mileage rate for each business mile or your actual car expenses. If this is the first year you have business use of an automobile, you do not have to decide which method yields the better result until you file your return. If this is not the first year you have business use of an automobile, you cannot switch to the standard mileage rate in a later year if you started with deducting the actual expenses. On the other hand, if you started with deducting automobile expenses using the standard mileage rate, you can switch to the actual expense method.

Admittedly, claiming the standard mileage rate is a lot easier for most of us. All we have to do is keep track of our business miles and multiply them by the current rate. In addition, you may also deduct your costs for parking and tolls and, if you are self-employed, the interest on your car loan. Claiming actual expenses requires a bit more diligence in your recordkeeping. Doing so, however, may pay off in the end by giving you a larger deduction.

Regardless of the method you choose, the expenses are limited to your business-use percentage. This percentage is calculated by dividing your total business miles by your total miles driven for the year. You need to record the odometer reading on January 1 and December 31. You are also required to keep a log of each business trip (date, destination, trip mileage, and purpose). Even if your vehicle is used 100% for business, the IRS will look for a log as proof of the transportation expense.

Tax Day for filing 2017 Individual Returns is **Tuesday, April 17, 2018.**

This is due to the observance of Emancipation Day in Washington D.C.

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Maximizing Your Deductions

Year-end strategies to save you money

As the tax year draws to a close, many of you are thinking of ways to reduce your taxable income. Generally, this is accomplished by increasing your expenses for the year. For example, making a charitable contribution by check on December 31, 2017 will create a deduction on your 2017 tax return if you are able to itemize deductions.

Another strategy is to "bunch" your deductions. Miscellaneous itemized deductions and medical expenses are limited to a percentage of your adjusted gross income. If it is feasible to pay some of these expenses before year-end, it may be enough to push you over the limit. If you know you will need new glasses or contact lenses, buy them before the end of the year. If you can, pay all medical and dental bills by

December 31. Once totaled, you may have enough to exceed the 10% adjusted gross income limitation.

Employees can also take advantage of the bunching strategy to exceed the 2% adjusted gross income limit on miscellaneous itemized deductions. This can be accomplished by extending subscriptions to professional journals, paying union or professional dues, and enrolling in and paying tuition for job-related education, all before the end of the year. If you have any questions, please give us a call.

An Age To Remember

0	If your child is born during the year, even as late as 11:59 p.m. on December 31, you can claim a dependency exemption for your child. This comes with one catch. You need to file for the child's social security number (SSN) and include it on your tax return. If your dependent does not have and cannot get an SSN, you must show the individual taxpayer identification number (ITIN) or adoption taxpayer identification number (ATIN) instead of an SSN.
0-12	The good news is, you gain tax advantages by contributing to your employer's flexible spending account to cover child care expenses or you may qualify for a child care credit on your tax return. The bad news is that any investment income over $2,100 in your child's name is taxed at your rate until the child reaches age 27.
13	Once your child reaches age 13, no matter when during the year the birthday falls, you no longer qualify to take the child care credit.
16	This is the last year your child qualifies you for the $1,000 child tax credit.
18	If you own a business, you can pay your children to work for you and avoid paying Social Security and Medicare taxes on their wages. Once they reach age 18, you are required to withhold payroll taxes like any other employee.
27	At this age, children are taxed at their own rates on investment income. In addition, they are no longer eligible for their parents' health insurance benefits.
50	Congratulations. Not only have you reached the half century mark, you can contribute an additional $1,000 to your IRA, bringing the total contribution limit to $6,500.
55	You and your covered spouse are eligible to make an additional $1,000 contribution to your HSA.
59.5	This is the magic age when you may take money from IRAs and retirement plans without incurring the additional 10% penalty for early distributions. There are exceptions to the penalties if you are younger, but this is the age when you may take penalty-free distributions for any reason.
65	Once you reach age 65, you qualify for an additional standard deduction and, if certain conditions exist, a tax credit. For tax purposes, you are considered to reach age 65 on the day before your 65th birthday.
70.5	At this age, you are required to begin distributions from your traditional IRA. If you have a Roth IRA, this rule does not apply. If you have a retirement plan with your employer, you are still working, and you do not own more than 5% of the company, you can delay distributions even if you reach age 70½.

Substantiating Business Expenses

Do not forget to save those receipts

As a business owner, one of the most important things you should do is keep good records. Without them, the IRS may disallow some of the expenses you incur if it chooses your return for a closer look. Maintaining good records should be done throughout the year. Keeping receipts, credit card statements, bank statements, and canceled checks is a must. Set aside a spot in your office for expenses and sort through them periodically. Group similar expenses together and total them. Keep receipts for large purchases, such as equipment or capital improvements, separate because they are reported differently on your tax return. For the tech savvy there are many electronic alternatives from apps to scanners to accounting software.

Staying organized will give you a better idea of the expenses you are incurring and what your bottom line will be. An added benefit is that when it comes time to file your tax return, you will be more prepared.

<u>Pennsylvania Topic:</u>

- In 2017, PA Department of Revenue dramatically increased audits of Schedule C businesses. You may have received a notice requesting details about cost of goods sold or other expenses. PA says they plan to continue these audits in 2018. Documentation is your best defense. Travel logs, maintaining your filing, and computerized accounting systems can help you stay organized.

Business Owners Beware

Scammers are after your data

For years we have heard stories about how identity thieves hack into computers and steal personal information. We have been assaulted with phishing scams where thieves impersonate IRS employees and intimidate innocent taxpayers into paying large sums of money for taxes they do not owe. No one is immune to this threat. Individuals in all 50 states have been targeted.

Now the thieves are targeting business owners. To put things into perspective, through June 1, 2017, the IRS identified approximately 10,000 business returns as potentially theft-related compared to about 4,000 for calendar year 2016 and 350 for calendar year 2015.

This coming filing season, the IRS will be asking tax professionals to gather more information on their business clients. All the data being collected assists the IRS in authenticating that the tax return being submitted is the legitimate return and not an identity theft return. Some of the new information people may be asked to provide when filing their business, trust or estate client returns include:

- The name and social security number of the individual authorized to sign the business return. Is the person signing the return authorized to do so?
- Were estimated tax payments made? If yes, when were they made, how were they made, and how much was paid?
- Is there a parent company? If yes, what is its name?
- Additional information based on deductions claimed.
- Has the business filed Form(s) 940, 941 or other business-related tax forms?

New Forms to Bring at Tax Time

Government is requesting more to prevent fraud

- For any Taxpayer and Spouse filing an individual tax return— A state issued ID is required. Please bring your ID's to your tax appointment or send a copy along with your things.
- New Dependent? We now need a <u>copy</u> of the Birth Certificate and Social Security Card on file.

Working With Your Spouse

Is your spouse your employee?

One of the advantages of operating your own business is hiring family members. However, the employment tax requirements for family employees can vary from those that apply to other employees. There are a couple of different ways a married couple can operate a business together.

If you operate a sole proprietorship and you hire your spouse as an employee, you have an employee/employer relationship. This means one spouse substantially controls the business in terms of management decisions and the other spouse is under his or her direction and control. If such a relationship exists, then the non-owner spouse is an employee subject to income tax withholding, social security and Medicare tax, but not to FUTA tax. If this type of arrangement exists, you can provide benefits to your spouse and deduct them on your business return. One of these benefits can be health insurance. If your spouse is a bona fide employee and is paid a reasonable wage for the services that he or she performs, you can provide health insurance to your spouse with a policy that covers both of you. This way, you are allowed a deduction for the coverage on your business return and, in turn, reduce your self-employment tax. You can also provide retirement benefits to your spouse.

On the other hand, if your spouse has an equal say in the business affairs, provides substantially equal services to the business, and contributes capital to the business, then a partnership relationship exists and the business's income should be reported on Form 1065. When spouses carry on a business together and share in the profits and losses, they are partners in a partnership regardless of whether they have a formal partnership agreement. They should not report the income on a Form 1040, Schedule C, in the name of one spouse as a sole proprietor nor should they file a joint Schedule C. In a partnership, each spouse reports his separate share of the partnership income and pays his own self-employment tax. This generally does not increase the total tax on the return, but it does give each spouse credit for social security earnings on which retirement benefits are based.

Medical Expenses

Odd things you might not consider

Have you heard of a fidget spinner? Essentially, it is a triangle-shaped toy that is designed to spin with little effort. Fidget spinners have been around for a long time, but they have gained popularity in recent years as a tool to calm children who are diagnosed with autism, attention deficit disorder (ADD), attention deficit hyperactivity disorder (ADHD), or anxiety. The premise is that the repetitive motion of the spinner redirects anxiety helping the child to relax.

Is that enough to qualify the fidget spinner as a medical expense on your tax return? That depends. In technical terms, the rules allow you to deduct expenses paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or payments for treatments affecting any structure or function of the body. What is important is that a specific diagnosis is necessary and the cure or treatment must be specifically ordered by the doctor. If your child's doctor suggests a fidget spinner might be helpful or calming, that is not enough for a deduction. However, if your child's doctor prescribes a fidget spinner in response to a specific medical condition, like autism, that should qualify as a medical expense. As an added bonus, your child's school might not ban the spinner if the doctor prescribes it.

The IRS allows you to deduct preventative care, treatment, surgeries and dental and vision care as qualifying medical expenses. You can also deduct visits to psychologists, psychiatrists, and chiropractors. Prescription medications and appliances such as glasses, contacts, false teeth and hearing aids are also deductible.

The IRS also lets you deduct the expenses that you pay to travel for medical care, such as mileage on your car, bus fare and parking fees.

Have you visited your Portal yet? Access your return anytime, anywhere! Reduce clutter! Go Portal!

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We cannot fit all our tax tips in one newsletter.

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SPECIAL INSERT—1099 and Sales/Use Tax Information– SPECIAL INSERT

New 1099 Deadlines and Penalties May Affect You

In the course of your business, if you pay an individual or a business (other than a corporation) more than **$600** total in the current tax year, by cash or check, you are **required** to provide each individual or business (other than a corporation) with a Form 1099, which states the type of payment and the amount that you paid during the year.

Common types of payments to include on a Form 1099 (exceeding **$600** per individual or business):	Do **NOT** include these types of payments on a Form 1099:
♦ Payments for services performed by Independent Contractors or others (not as an employee) *Examples include: professional fees to Attorneys and Accountants; fees for repairs to machines, equipment, etc.; installation/ landscaping services; and other subcontractors.* ♦ Interest ♦ Rents	♦ Payments made to most corporations ♦ Payments made by credit card ♦ Payments for supplies and materials if you track them separately ♦ Payments made as a landlord

Form 1099s are to be distributed to the individual or business by **January 31, 2018**. If you fail to distribute and file Form 1099s, and cannot show reasonable cause for the failure, you may be subject to a penalty. The penalty applies if you fail to file, fail to provide the statement by the deadline, fail to include all information required to be shown on the statement, or include incorrect information on the statement. These penalties can be as high as $250.00 per 1099 missed.

If you would like our office to prepare your 1099s, please contact our office by **January 15, 2018.**

Sales/Use/Hotel Occupancy Tax Issues that May Affect You

Every individual/business is **required** to determine the need to pay, register for, or collect Sales, Use, or Hotel Occupancy Tax. Operating without a Sales/Use/Hotel Occupancy Tax License may result in criminal penalties and failure/non-compliance with the collection and payment of these taxes may result in an audit and assessment of civil penalties and interest along with the tax due.

Sales Tax	Charged on sale, consumption, rental or use of tangible personal property and on certain services.	6% (additional 1% local tax in Allegheny County and 2% in Philadelphia)
Use Tax	Due on taxable purchases of tangible personal property or specified services used or consumed in PA where no sales tax is collected and paid to a vendor.	6% (additional 1% local tax in Allegheny County and 2% in Philadelphia)
Hotel Occupancy Tax	Applies to room/apartment/house rental charges for periods less than 30 days, including rentals arranged through online or third-party brokers, such as AirBnB or Craigslist and real estate agents.	6% (additional 1% local tax in Allegheny County and in Philadelphia) (some counties impose an additional tax collected by the county treasurer)

Common Examples of Goods and Services subject to Sales/Use Tax	
Tangible Goods	**Services**
♦ Ready-to-eat food ♦ Computers/Office Equipment/Furniture ♦ Office/Cleaning Supplies ♦ Animals/Pets (food, sale or rental of animals, equipment) ♦ Digital products (downloads from internet, stream services, receipt of product by email)	♦ Building cleaning & maintenance ♦ Lawn care ♦ Disinfecting or pest control ♦ Self-storage services ♦ Equipment rentals