

Client Update



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5 midyear tax moves for 2017

The midpoint of the year is a good time to assess tax consequences for 2017. While proposed tax reforms might have an impact later this year, here are five timely tax moves that are sensible to consider now.

1 Size up deductions and credits. Use last year's tax return to estimate what your highest tax bracket will be and how you can reduce your tax liability through deductions and credits. For instance, you might make deductible donations of money or property to a charity to reduce your marginal tax rate.

2 Examine your investment portfolio. You can harvest capital losses from securities sales to offset capital gains plus up to \$3,000 of ordinary income each year. You may also use capital gains to offset capital losses from earlier in the year. Planning your securities purchases early may help you prepare for tax time.

3 Take retirement plans into account. When possible, boost contributions to retirement plans, within the generous tax law limits. Also, you may be able to supplement your retirement plan at work with contributions to a Traditional IRA or Roth IRA. On the flip side, you're generally required to take annual required minimum distributions from retirement plans after reaching age 70½.

4 Focus on higher education. If you have a child in college, you may be able to claim higher education credits, even if the child graduates this year. However, each credit is phased out for upper-income taxpayers. The tuition deduction expired after 2016, so planning the best use of the remaining education deductions could be useful.

5 Update your estate plan. Finally, review your estate plan to ensure you're maximizing the tax benefits. Currently, transfers between spouses are completely exempt from estate and gift tax, while other transfers are sheltered by a \$5.49 million exemption in 2017 (\$10.98 million for a couple). However, estate tax reform remains a strong possibility in 2017.

These are just five possible midyear tax planning moves to consider. Call to schedule a midyear appointment now to review actions that could apply to your personal tax situation. ♦



Can I work while receiving Social Security benefits?

Many people continue to work while collecting Social Security retirement benefits. The reasons vary – some need the money and others simply enjoy keeping busy. Whatever the reason, there are some important tax implications to consider if you choose to work while receiving Social Security benefits.

► Your benefit amount may be reduced

You can start collecting Social Security retirement benefits at age 62, but full retirement age is between 65 and 67, depending on your birth year. People age 65 and younger who work while collecting Social Security will have their benefits reduced by \$1 for every \$2 they earn over \$16,920 in 2017.

If you reach full retirement age in 2017, your benefits will be reduced by \$1 for every \$3 you earn over \$44,880 in the months before you reach full retirement age. For these purposes, earnings include gross wages from a job or net earnings if you are self-employed. It does not include pensions, annuities, investment income, or other retirement benefits. Starting with the month you reach full retirement age, your benefits will not be reduced no matter how



much you earn.

Keep in mind that the amount of the benefit that was reduced while you were working is not gone forever. Once you reach full retirement age, it will be returned to you over time in the form of a slight increase in your monthly benefits.

► Your benefits may be taxed

Your earnings in retirement also affect the amount of benefits subject to income tax. If your “combined income” – that includes adjusted gross income, tax-exempt interest, and half of your Social Security benefits – exceeds \$25,000 as an individual or \$32,000 for a married couple filing jointly, you may have to pay federal income taxes on as much as 85% of your benefits.

Ultimately, the decision to continue working in retirement depends on your particular situation. Determining the best course of action can be complicated, so don't hesitate to call us for help. ♦

Age and taxes – what every parent should know

There are various age milestones for children that trigger potential changes to your tax situation. Knowing about these changes is important to avoid an unexpected tax surprise.

Age 13 – Dependent Care Credit

If your child has been in daycare and you offset the cost with the Dependent Care Credit, it can be worth up to 35 percent of qualifying expenses of \$3,000 for one child, or up to \$6,000 for two or more children. Be aware that once your child reaches 13, this credit is no longer available.

Age 17 – Child Tax Credit

You might be claiming a tax credit for up to \$1,000 for each of your children who are under age 17. Once they reach 17, this credit goes away. Take note of the year(s) this will happen. Because it's a credit that comes off the top of your tax bill, and not a deduction which reduces your taxable income, you might feel this financial hit a bit more than others once it's gone.

Age 19 – Earned Income Tax Credit (EITC); loss of personal exemptions

The EITC is a credit worth up to \$6,318 for taxpayers with three or more qualifying children. Your children will not count toward this credit once they reach age 19, or 24 if they are full-time students.

You may also have been getting a personal exemption for each child under the age of 19, or under 24 for those who are full-time students. In the 2017 tax year, the exemption is up to \$4,050 in tax-free income for each child.

How should I prepare?

First, note the tax years when these changes will occur. As your kids approach these key years, adjust your spending to save more during the year to prepare for the tax change. Second, at the beginning of the year, take a look at your paycheck withholdings. You may want to adjust them to help ease the tax burden. If your children will be reaching any of these ages, give our office a call so we can discuss how it will affect your tax situation. ♦



June 15

- Due date of second installment of 2017 individual estimated tax

July 31

- Due date for filing 2016 retirement or employee benefit plan returns (5500-Series) for plans on a calendar year

September 15

- Due date of third installment of 2017 individual estimated tax
- Deadline for filing 2016 calendar-year tax returns for corporations with extensions of the March due date
- Deadline for 2016 partnership returns with extension of the April due date

Watch out for these two common scams

Accountants aren't the only ones working long hours this tax season. Fraudsters are busy perfecting scams designed to cheat you out of your money.

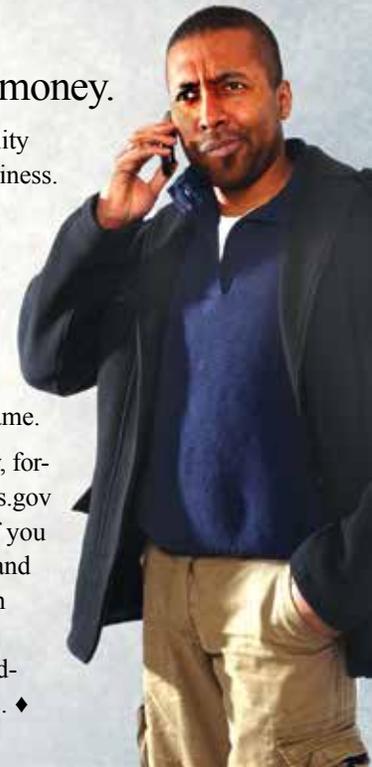
The first is the W-2 scam that has hit restaurants, schools, hospitals, and other organizations throughout the country. It's surprisingly simple: An email is sent to a company's human resources department from a sender posing as a top executive, who requests an updated list of employee W-2 information. Because the message seems routine and apparently comes from a legitimate source, the company employee may be persuaded to provide the confidential data. The crooks then use it to file fraudulent tax returns.

Earlier this year the IRS issued specific warnings about this con, noting that a growing number of businesses and organizations have become victims. In 2016 alone, at least 145 organizations were victimized and over 29,000 taxpayers affected.

The Federal Communications Commission (FCC) has cautioned about another scheme. Known as the "yes scam," it's a ploy to obtain your recorded voice signature. You receive

a call from someone representing a utility company, bank, or other legitimate business. At the other end, a voice (actually a recording) asks a seemingly innocuous question such as, "Can you hear me?" or "Are you the homeowner?" When you respond "yes," your answer is recorded and used to authorize fraudulent charges in your name.

To protect yourself and your company, forward phony W-2 emails to phishing@irs.gov with "W2 Scam" in the subject line. If you receive a phone call asking questions and you realize you may have fallen victim to the "yes scam," monitor your credit carefully and contact your bank or creditor if you notice unauthorized charges. ♦



Consider the risks of credit cards with rewards

It's hard to resist credit cards that offer rewards, but like anything promising free perks, read the fine print.

Reward cards typically provide points that can be redeemed for merchandise, services, or even straight-up cash. For this benefit, you often have to pay an upfront annual fee for your reward card. You need to consider whether the annual fee makes it worth the bonus you will receive.

A card that rewards you for purchases that you normally make, such as for groceries, fuel, or air travel, usually works out the best and can save you real money. Cards that issue points for buying in less predictable categories, like seasonal promotions or those from highlighted retailers, can also save you money, but only if you can stay disciplined and resist overspending.



A reward card is *not* a good fit if you do not regularly pay your monthly balance in full. Reward cards often carry higher than normal interest rates, thus lowering your overall benefit. A card that causes you to make purchases you don't really need just to get the points should also be avoided. And if your credit score is only so-so, you might not qualify for cards with the best benefits and you may end up paying higher annual fees.

So you think you're ready for a perk-laden credit card? Before you sign up, ask yourself the following questions:

- Do the rewards expire?
- Is there a cap on reward-qualifying purchases?
- How much must be charged to claim the bonus points offered at signup?

You will more than likely continue to get offers for reward cards that seem irresistible. Armed with the right information, you are on your way to making a sound credit card choice. ♦

10 money-saving tax provisions you may not know about

Here are ten often overlooked benefits you may be able to take advantage of this year.

1. Mortgage discount points. When you buy a home you can generally deduct the cost of mortgage discount points to lower your interest rate. Many taxpayers forget that when they sell their home they can immediately deduct the remainder of the points not yet used as a deduction.

2. Job-hunting costs. The expenses you accrue when looking for a new job in your current field are generally tax deductible. That includes fees paid to recruiters or placement agencies, as well as the costs of printing materials, postage, preparing resumes, and travel expenses.

3. Student loan interest. You can deduct up to \$2,500 a year in interest paid on student loans. This is true even if someone else helps you pay your loans. Parents who have cosigned and paid student loans often forget that they are also eligible for the deduction.

4. Alimony legal fees. While most people who pay alimony know it is tax-deductible, few people know you can also deduct money you spend on your alimony agreement, such as attorney fees.

5. Casualty and theft losses. If you were a victim of a theft or catastrophe, such as a fire or earthquake, you may be able to deduct the loss as an itemized deduction on your tax return. The timing of taking the loss and the amount of the qualified loss can get complicated, so be sure to

ask for help if you think it applies to your situation.

6. Occupational education. If you can show you need to take courses to maintain or update your skills in your current occupation, you can often deduct those costs.

7. Professional subscriptions. Expenses for trade magazines, professional journals, or digital subscriptions relevant to your profession can be deducted as an itemized deduction.

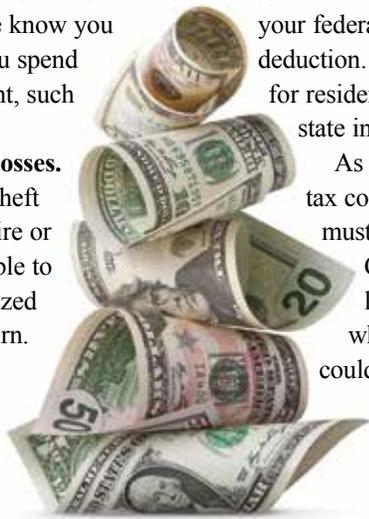
8. Advisor fees. Fees for investment management or financial advice on income-producing investments may be deductible from itemized returns. This includes your tax preparation fee.

9. Small business tax breaks. There are a number of special business incentives built into the tax code. This includes special depreciation rules and the now permanent research credit. A deduction even exists for domestic production of qualified products.

10. State sales tax alternative. You can choose to deduct state and local sales taxes rather than state income taxes on your federal tax return as an itemized deduction. This is especially useful for residents of states that don't have state income taxes.

As with any part of the tax code, certain qualifications must be met and limits apply.

Contact our office if you'd like to take a closer look at which deductions and credits could be useful to you this tax year. ♦



CLIENT UPDATE: This newsletter is issued quarterly to provide you with an informative summary of current business, financial, and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be easily summarized. For details and guidance in applying the tax rules to your individual circumstances, please contact us. ©MC



Tax statistics from the IRS

The latest IRS Data Book is now available on IRS.gov. This annual statistical catalog highlights the 2016 tax year. It includes information like the collection of more than \$3.3 trillion in gross taxes, the processing of more than 244 million tax returns and the issuing of more than \$426 billion in tax refunds. The IRS indicates they audited just over one million tax returns, down 16 percent from the 2015 total of 1.2 million.

IRS is now using outside collection agencies

The IRS is now using outside collection agencies to collect unpaid tax obligations. This also means there will likely be an increase in the number of collection agency scams with thieves masquerading as IRS-endorsed suppliers. If you are to be contacted by these new collection agencies, you will be notified first in writing by the IRS.

Catching up on correspondence

Have you been waiting to hear back from the IRS? In 2014 and 2015, written correspondence to the IRS increased dramatically, which affected the agency's response rate. In 2015, the IRS met its written response goal of 30 to 45 days only half the time. This failure is attributed to budget and staffing cuts. Last year the IRS received a \$290 million increase in funding, and they have used some of this money to help catch up on responding to this backed up correspondence. The IRS says that as of February 2017, the number of letters was at 539,000, compared to 900,000 in 2014 and 859,000 in 2015. It will be interesting to see if this reduction in the backlog of correspondence continues in the coming years. ♦