12/31/17

CHANGES IN TAX LAWS AND SPECIAL TAX ISSUES THAT MAY AFFECT YOU

Recent changes in federal tax laws will impact many federal tax returns prepared in 2018… in one way or another.

FILING REQUIRMENTS

For most taxpayers, if your 2017 gross income (does not include social security payments) is under the following levels, you do not have to file a federal tax return (unless you have self-employment income):

	Under 65	Over 65
Single:	$ 10,400	$ 11,950
Married, Filing Joint, and Both Are:	20,800	23,300

§ 179 DEDUCTION – FAST DEPRECIATION WRITE-OFF AND 50% BONUS DEPRECIATION

The 2015 PATH Act made permanent the Federal Section 179 expense deduction for purchased property placed in service for tax years beginning in 2015. For business property placed in service in 2017 the Federal Section 179 Maximum expense limit remains at $510,000 with a phase-out beginning with total property placed in service of $2,030,000.

You may recall that Iowa passed legislation to couple with the Federal limits for 2015 very late in the filing season. That was for 2015 only. Iowa again will NOT couple with the Federal Section 179 maximum expensing amounts for 2017. This means that on an Iowa return, only $25,000 of expense may be deducted, and the maximum expense limit is only $200,000. Therefore, a purchase of a piece of machinery for $225,000 would not qualify for any first year Section 179 expensing on the Iowa return. Yet, the full $225,000 (or any portion thereof) could be expensed on the Federal return.

The same 2015 PATH Act also extended on the Federal level, 50% Bonus Depreciation available for qualifying new property. Iowa has not coupled with the Federal bonus depreciation rules for many years, and again there will not be a provision for Iowa Bonus Depreciation in 2017.

OTHER CHANGES IN DEPRECIATION RULES

Also in late 2015, the IRS simplified the paperwork and recordkeeping requirements for small businesses by raising to $2,500 the safe harbor threshold for deducting certain capital items as an expense, rather than a depreciable item (provided the purchase is substantiated by an invoice). The new rules are effective January 1, 2016. The IRS also announced audit protection to eligible taxpayers by not challenging use of the new $2,500 threshold for tax year 2015. Thus, purchases of any item for less than $2,500 in 2017 can be expensed, rather than depreciated. We have added a new line to our worksheets – **Items Under $2,500 Expensed**. You should use this line to record such purchases.

AFFORDABLE CARE ACT REPORTING REQUIREMENTS

The Affordable Care Act (“ACA”) contains an Individual Mandate that requires individuals/families to maintain qualifying health insurance coverage to a level defined as “Minimal Essential Coverage” during every month of the year. If a Minimum Essential Coverage plan is not carried then the taxpayer must either demonstrate a specifically defined coverage exemption, or make a “shared responsibility payment” (i.e. an additional tax) on their tax return. Minimum Essential Coverage is met by employer-sponsored coverage, Marketplace purchased coverage, Medicare Part A coverage, most Medicaid coverage, most VA health coverage, most types of TRICARE coverage, and “bronze” level or better private insurance.

If you have purchased coverage through the Marketplace, please be sure to bring to your tax appointment the Form 1095-A that you will receive. If you purchase private health insurance directly through a provider other than through the Marketplace, then please bring to your tax appointment documentation to show that your plan meets Minimum Essential Coverage requirements and that you were covered each month of the year. You may receive a Form 1065-B and/or 1065-C. Please bring these forms to the office.

CREDIT FOR EDUCATIONAL EXPENSES

The American Opportunity Credit is again a maximum of $2,500 of credit a year for qualified higher education expenses up to $4,000 per child, and the credit can be used for expenses incurred in up to four years of study. Further, for the American Opportunity Credit, “course materials”, including books, are now included with tuition and fees as “qualified” expenses. The Lifetime Learning Credit may also be utilized; however “course materials” are not considered a “qualified expense” for this credit.

For 2018, taxpayers may deduct up to $3,239 on their Iowa income tax return per beneficiary for funds contributed to the Iowa Educational Savings Plan Trust. Many other states also allow state tax return deductions for 529 college savings plans.

CHARITABLE CONTRIBUTION RULES

Deductions for charitable contributions of $250 or more (each) are not allowed <u>unless you have a written statement acknowledging the contribution from the charitable organization</u>. **Additionally, all contributions, regardless of amount, must be substantiated by a bank record (cancelled check) or a written communication from the charitable organization.**

FEDERAL CAPITAL GAINS AND QUALIFIED DIVIDEND TAX RATE

A new 20% capital gain tax rate (for property held more than 12 months) was introduced for sale transactions after January 1, 2013, for taxpayers in the 39.6% and higher tax brackets. Taxpayers in the 10% and 15% tax brackets are still subject to a 0% federal capital gains rate. Taxpayers in the 25% through 35% tax brackets remain subject to a 15% federal capital gains rate. Qualified dividends (as shown on Form 1099-DIV) are taxed at the same 0%, 15%, or 20% rates as federal capital gains.

RESIDENTIAL ENERGY CREDITS

The nonbusiness energy property credit for qualifying energy efficiency improvements and expenditures expired December 31, 2016. It is not available for improvements placed in service in 2017.

The "High Tech" Residential Energy Credit also expired for most qualifying property on December 31, 2016.

IRA DEDUCTIONS

Each taxpayer can contribute up to $5,500 to either a traditional or Roth IRA for 2017 subject in some cases to the amount of your adjusted gross income. If you are age 50 or older you can make an additional $1,000 “catch-up” contribution to traditional or Roth IRAs for a total of $6,500. You have until April 17, 2018, to make these contributions.

SAVER’S TAX CREDIT

The “saver’s credit” may benefit single taxpayers with adjusted gross incomes of $30,000 or less, and married taxpayers (filing jointly) with adjusted gross incomes of $60,000 or less.

If you make IRA contributions or elective deferrals to 401(k) or other qualified plans (such as a Keogh or SEP plan), you may qualify for a tax credit that reduces federal income tax of up to $2,000 for married taxpayers and up to $1,000 for single taxpayers
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TAXES FOR HIGHER-INCOME TAXPAYERS

Since January 1, 2014, two new taxes have been in effect. The first is a “Net Investment Income” surtax of 3.8% on the excess of $250,000 of net investment income for joint filers, or the excess of $200,000 for single filers. If you are concerned that this may apply to your return, please contact our office for further guidance on how this tax is calculated.

The second new tax is an “Additional Medicare Tax” of 0.9% of additional employee share Medicare tax on a jointly filed return in excess of $250,000 or a single return in excess of $200,000. This additional Medicare tax should be withheld by employers, but in cases of self-employed individuals or if a taxpayer has multiple jobs to reach the threshold, any amount that is not withheld must be paid with the income tax return.

HEALTH AND LONG-TERM CARE INSURANCE DEDUCTIBILITY

Please make sure you provide us with complete information concerning the total amount you paid in 2017 for health insurance premiums for each member of your family. A **portion** of the premiums paid for long-term care insurance may be deductible on federal returns (as an itemized deduction) as health insurance premiums. The portion of long-term care premiums that is deductible depends on the age of each member of the family as of December 31, 2017 [ranging from $410 to $1,530 up to age 60; $4,090 for ages 61-70; and $5,110 if over age 70]. Thus, long-term care premiums must be allocated between husband and wife on the tax worksheet.

For self-employed persons, 100% of the total of health insurance and eligible long-term care premiums is fully deductible on the federal returns without itemizing.

The total of your health insurance premiums and all eligible long-term care insurance premiums is also **100% deductible for all individuals** in computing net income on your Iowa return, without itemizing. Thus, it is very important that you provide us with information on your insurance premiums, even if you do not itemize deductions.

MISCELLANEOUS NOTES OF TAX INTEREST

1. On Iowa returns, a partial exclusion from income is provided for the receipt of pensions, annuities, self-employed retirement plans (such as Keogh), deferred compensation, IRA distributions, and other retirement benefits (excluding social security) by taxpayers 55 or older. If your tax status is married filing jointly, the exclusion is up to $12,000. For all other tax filing statuses the exclusion is up to $6,000.

2. **Spousal IRA.** Deductible IRA contributions of up to $5,500 can be made for each spouse (**including a spouse not employed outside the home**) if the combined compensation of both spouses is at least equal to the total contributed amount, and certain other rules are met.

3. The business rate for automobile mileage in 2017 was 53.5 cents per mile. The rate will be increased to 54.5 cents for 2018.

4. If you claim the credit for child care for children under 13 you must provide the name, address, and social security number or E.I.N. for each child care provider.

5. The maximum amount of employment-related expenses for child care that qualify for the credit for child care is $3,000 for one child, and $6,000 for two or more children.

6. Single persons with earned income of less than $39,617 with one dependent child ($48,340) if you have three or more children), may be entitled to the federal earned income

credit. The credit also is available to those 25 years old or older, without children, who earned less than $15,010. Higher amounts apply to those married filing jointly. The Iowa earned income credit is 14% of the federal credit.

7. None of a taxpayer's social security payments are taxable on their **Iowa** income tax return. However, depending on your income, up to 85% of social security payments are taxed on the **Federal** return. Additionally, Iowa no longer taxes veteran federal retirement pay for military service.

TUITION, TEXTBOOK AND ACTIVITY FEE CREDIT FOR IOWA TAXPAYERS

Taxpayers who have one or more dependent children attending grades K through 12 in an Iowa public or private accredited school may claim a **twenty-five (25%) percent tax credit** on the Iowa return **for the first $1,000 paid for tuition, textbooks and activity fees for each dependent**. **The definition of textbooks has been expanded to include books and materials for extracurricular activities as follows:**

> The cost of **the following items are eligible** for the credit: activity fees; booster club dues; cleats for football, baseball, soccer, track, and golf shoes; costumes for a play; special clothing for a concert; rental of musical instruments for school or band or for lessons at a school; sheet music used in a school; cost of basic materials for shop class or mechanics class; and band, hockey and football uniforms. You are also able to claim the cost of items purchased to fulfill a mandatory school supply list.
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> The cost of **the following items are not eligible** for the credit: basketball shoes; purchase of musical instruments; clothing for a play or concert that is suitable for everyday wear; travel expenses for trips; cost of music lessons outside of school; and expenditures for wood or materials for making furniture or repair of personal vehicles.

DOMESTIC HOUSEHOLD EMPLOYEES

If you employed domestic employees in 2017 (e.g. cleaning persons, health aides, persons providing child care in your own home, etc.) and paid wages totaling $1,900 or more, you are required to pay employment taxes on these wages -- and the payment is made with your individual federal income tax return. You should bring in all information regarding domestic employees (e.g. name, address, social security number, gross wages, etc.) with your regular income tax information. Please note that Forms W-2 will need to be prepared and furnished by February 1 to these employees regardless of the amount of wages paid.

1099 AND WAGE REPORTS DUE FEBRUARY 1

If you are required to issue Forms 1099 or W-2 in connection with your business or farm operation, please remember that these documents must be sent to the person paid on or before February 1, 2018. If your tax appointment is after this date, please bring all necessary information to the office before January 26 so the proper reports can be prepared and filed by the due date. The IRS W-3 and 1096 forms must also be signed and filed by February 1, 2018. Failure to comply with these information report-filing requirements can result in a penalty of $250 for each report not filed.

As in the past, if you have paid wages for agricultural labor during the year in the amount of less than $150, you do not have to pay social security tax on the wages. However, if all of your agricultural wages total $2,500 or more, you must pay social security taxes on all employees ... whether a particular employee earned $25, or $125, or $1,000.

Agricultural wages, which are subject to social security taxes, also are subject to federal and state income tax withholding. You should contact the office if you have any questions.

COST BASIS FOR STOCK OR MUTUAL FUNDS SOLD

To correctly compute the capital gain on the sale of any stock or mutual fund, **you must provide us with cost basis information**. This is the original cost plus any brokerage fees. If there have been dividend reinvestments, we need information on all dividends reinvested each year you held the stock or fund.

Brokers now provide some cost basis information on Form 1099-B. You need to compare this information with your own records to confirm its accuracy.

BROKERS HAVE UNTIL FEBRUARY 15 TO SEND 1099 FORMS

Remember, brokers now have until February 15, 2018 to mail Forms 1099 to you (rather than January 31).

2017 FEDERAL INCOME TAX BRACKETS

Married Filing Jointly		Single	
Taxable Income	**Tax Rate**	**Taxable Income**	**Tax Rate**
$ 0 to $ 18,650	10%	$ 0 to $ 9,325	10%
$ 18,651 to $ 75,900	15%	$ 9,326 to $ 37,950	15%
$ 75,901 to $153,100	25%	$ 37,951 to $ 91,900	25%
$153,101 to $233,350	28%	$ 91,901 to $191,650	28%
$233,351 to $416,700	33%	$191,651 to $416,700	33%
$416,701 to $470,700	35%	$416,701 to $418,400	35%
$470,701 and over	39.6%	$418,401 and over	39.6%