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Client Update

SPRING 2017

in this ISSUE

tax deadlines

MARCH 2
- Extended deadline to provide a copy of Form 1095-C to recipients of health insurance coverage. (Original due date of January 31 was extended 30 days.)

MARCH 15
- Deadline for calendar-year corporations to elect S corporation status for 2017
- 2016 partnership returns are due

MARCH 31
- Forms 1095-B and 1095-C due to the IRS, if filing electronically. (Employers who have 250 or more employees are required to file electronically.)

APRIL 15
- Deadline for filing 2016 tax returns for calendar-year corporations

APRIL 18
- 2016 individual tax returns due
- 2016 annual gift tax returns due
- 2016 IRA contributions due
- First installment of 2017 individual estimated tax due

MAY 15
- Deadline for calendar-year nonprofit organizations to file annual reporting returns

Six facts about Traditional IRAs everyone should know

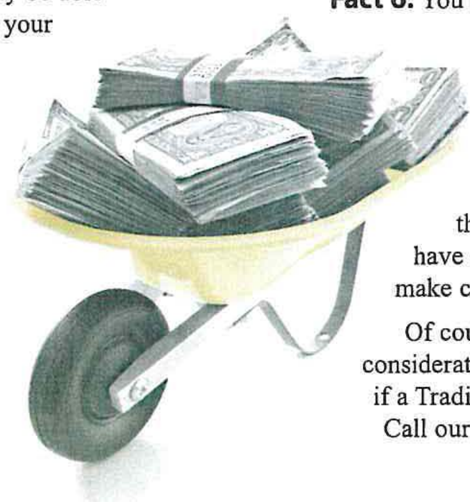
Individual retirement accounts (IRAs) are one of the cornerstones of retirement savings. Just about anyone can have one, and they offer great tax advantages. Here are six facts about Traditional IRAs that everyone should know.

Fact 1: You can contribute up to $5,500 to a Traditional IRA ($6,500 if age 50 or older) for 2016 and 2017, as long as your taxable compensation for the year was at least that much.

Fact 2: Non-working spouses can contribute to a Traditional IRA as long as the couple files a joint return and the working spouse's compensation equals or exceeds the sum of the non-working spouse's contribution and the working spouse's contribution.

Fact 3: When you contribute to a Traditional IRA, you may be able to deduct some or all of your contributions from your taxable income.

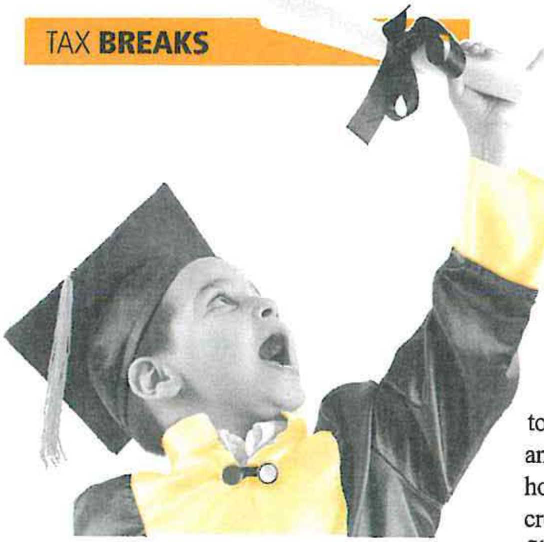
Fact 4: Your income level can limit your IRA tax benefit. There is no income limit for Traditional IRA contributions, but not everyone is eligible to receive a tax deduction. If you are covered by an employer-sponsored retirement plan, your deduction may be limited. For 2016, single taxpayers can take a full deduction with modified adjusted gross income (MAGI) up to $61,000 and a partial deduction up to $71,000 ($62,000 – $72,000 in 2017). Married taxpayers filing jointly can take a full deduction with MAGI up to $98,000 and a partial deduction up to $118,000 ($99,000 – $119,000 in 2017).



Fact 5: Everyone can consider a contribution. Even if your income exceeds the deduction limits, you can still make non-deductible contributions. Those non-deductible contributions may be withdrawn tax-free when you take distributions in retirement. Since you effectively paid taxes on the money in the year of the contribution, you don't have to pay taxes again later.

Fact 6: You may be able to make contributions for a prior year. You have until the tax return filing deadline (not including extensions) to make IRA contributions for the tax year. Therefore, you have until April 18, 2017, to make contributions for 2016.

Of course, there are other considerations when determining if a Traditional IRA is right for you. Call our office with questions. ∎



Education tax credits defray college costs

The cost of a college education is staggering. Fortunately, various education tax credits and deductions are available that can save you thousands on your tax bill. Determining which is right for your situation can be complicated, but knowing your options can be helpful. Here are the most common education tax breaks.

American Opportunity Tax Credit (AOTC)

This is a $2,500 credit per student each year. It is computed using 100% of the first $2,000 of eligible expenses and 25% of the next $2,000 of eligible expenses for a maximum credit of $2,500 per student each year. The student must be enrolled in a program that results in a degree or certification. He or she cannot have been convicted of a felony for possession or distribution of a controlled substance. The credit is only for the first four years of education and can only be taken for four years. The credit can be refundable if not used to offset income tax.

Income phase-out: The credit begins to phase out at $160,000 for married filers and at $80,000 for single, head of household, or qualifying widows. There is no credit available for those who are married filing separately.

Lifetime Learning Credit

This credit offers a maximum of $2,000 per tax return, rather than per student. It offsets 20% of the first $10,000 of qualified tuition and fees paid during the year. It is available to both undergraduate and graduate students and has no requirement for the number of courses taken. There is no limit on how many years it can be taken for each student and the credit is not refundable.

Income phase-out: The credit begins to phase out at $111,000 for married filers and at $55,000 for single, head of household, or qualifying widows. This credit is not available to married taxpayers filing separately.

2016 alert: Beginning with the 2016 tax year, an education credit cannot be claimed unless you receive a Form 1098-T from the qualified institution. If a taxpayer can substantiate additional qualified educational expenses they can be included in calculating the amount of education credit allowed for the year. There are also various deductions to consider.

Tuition and Fees Deduction

Up to $4,000 of tuition and fees can be deducted from gross income. The deduction is limited based on the modified adjusted gross income of the taxpayer. No deduction can be taken by a married filing separately filer. The costs can be incurred by the taxpayer, spouse, or a dependent.

2016 alert: Unless extended, the Tuition and Fees deduction is not available in 2017. Prior legislative action has extended this tax benefit, but as of now it is expired.

Student Loan Interest

Up to $2,500 of interest paid on a qualified student loan can be deducted in arriving at modified adjusted gross income. There are phase-out ranges based upon income and filing status.

Savings Bond Interest Exclusion

Subject to phase-outs based upon filing status and your modified adjusted gross income, all or part of the interest on Series EE bonds issued after December 31, 1989, or on Series I bonds, is excluded from income if the bonds are used for qualified educational expenses.

As mentioned, all of these credits and deductions are subject to income phase-outs. Because you may not use the same expense for more than one tax benefit, it is important to carefully plan your educational tax benefits. ▮

Use your tax refund for your future financial security

It's easy to be tempted to spend your tax refund on a big purchase you've been putting off, but maybe this year you might consider investing your refund or using it to increase your financial security. While everyone's needs are different, here are some optional uses of your refund that may work for you.

- Contribute your refund to your employer's 401(k) plan. If your employer offers a matching contribution, that's an immediate return on your money in addition to deferring taxes on your contribution. And, funds in the plan grow free of tax until withdrawal.
- Use your refund to pay down credit card balances – you could earn a double-digit return.
- Consider investing your refund in your child's education. Both Section 529 college savings plans and education savings accounts offer tax-advantaged ways to save for college costs.
- Take full advantage of your IRA options for retirement savings. Both Traditional and Roth IRAs are great ways to save for retirement.
- If you've maximized your retirement and education savings, and your credit cards are under control, put your refund in diversified investments that make sense for your age and financial situation.
- Ask yourself if getting a big refund every year is a smart idea. Would you rather invest your money during the year instead of making an interest-free loan to the government? If so, consider filing an updated Form W-4 with your employer.

Give us a call if you'd like to discuss potential ways to make the most of your tax refund. ▮

Small changes can mean big gains in employee retention

If you ask any business owner or manager about staffing, they will likely tell you it can be one of the most challenging aspects of running a business. Employee retention is a topic that resonates with them. A recent survey by the American Institute of CPAs indicated turnover is one of the top five issues for accounting firms of all sizes.

Aside from obvious factors like lower pay and lack of competitive benefits packages, employee turnover may be spurred by a variety of factors. Understanding what employees value in an employer can help deter excessive staff turnover and is the first step in making positive changes.

Career direction

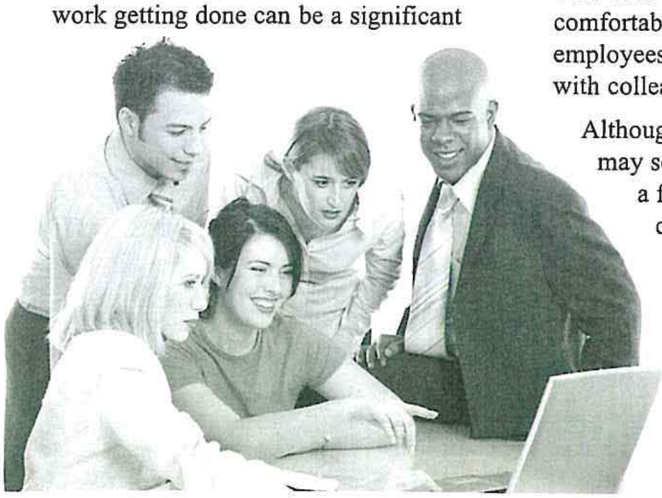
Provide clear career paths for your employees, including long- and short-term goals. When appropriate, align these goals with your business objectives and your employees' roles within the organization.

Recognition and feedback

Employees seek frequent, informal feedback. They want to know if they're meeting the leader's expectations.

Flexibility and freedom

Having autonomy over certain job functions or the 'when and where' of work getting done can be a significant motivator for employees.



Be creative in cultivating a positive workplace. Some ideas take more time and money to implement, and others are quite simple. Consider the following approaches and how they would make you feel as an employee of your business:

Recognize key milestones

Take time to celebrate individual and company successes. An ice cream break during the day to celebrate someone's new CPA license or a handwritten note from executives on an employee's company anniversary can make employees feel appreciated and special.

Professional training and development

Show your employees you invest in them. This will also benefit your company when they are a stronger employee.

Casual and relaxed office environments

Consider more collaborative environments, casual dress codes, and even lunch and learn opportunities to share about different departments. Make a focused effort to establish a comfortable culture where employees enjoy spending time with colleagues.

Although employee turnover may seem inevitable, making a few changes to your company culture can reduce it. Take a look at the companies that do it well, and then take an honest look at your business – how you operate, and what changes you can incorporate. ∎

IRS update

Why all the questions?

Don't be surprised if you're required to answer additional questions this year if you claim the Child Tax Credit (CTC), Additional Child Tax Credit (ACTC), or American Opportunity Tax Credit (AOTC). For the CTC and ACTC credits, you may be asked how long your children lived with you over the past year, or whether they lived with an ex-spouse, relatives, or other guardian.

If you are eligible for the AOTC, which is a credit to defray as much as $2,500 in higher-education costs for you or your children, you will need to provide Form 1098-T from the college or university. You will also need receipts for related expenses.

You may also be asked to double-check your forms for incorrect social security numbers and dates of birth for the dependents on your return, as these are two common sources of error.

These common errors have helped to make the Earned Income Credit (EIC) and the other credits a major source of what the IRS calls "improper payments." The agency estimates that of the $66 billion in EIC funds paid in 2015, nearly a quarter were collected by filers who didn't actually qualify to receive them. As a result, the IRS is requiring tax preparers to ask more questions. Starting this year, tax preparers who don't document their compliance with these new requirements could face fines of up to $510 per credit on each return.

If you get more questions than usual or are asked for additional documents, be aware that it's just a new requirement.

Where's my refund?

The IRS processes most tax returns within 21 days for electronic filings and six weeks for paper returns. The IRS offers the "Where's My Refund?" tool on IRS.gov for taxpayers to track the status of their returns. To ensure the speed of your return, e-file if possible, and consider using direct deposit to receive your refund. ∎

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New foreign asset reporting requires attention

The IRS and the Treasury Department require an annual disclosure of assets you hold in foreign accounts. The timing of this reporting has changed, and failing to meet this annual filing requirement can be costly.

▶ Background

On your individual tax return, Part III of Schedule B (Interest and Ordinary Dividends), asks if you have any foreign accounts, and where they are located. If you hold assets in foreign financial accounts, you will most likely need to file a FATCA Form 8938 *(Statement of Specified Foreign Financial Assets),* a FinCEN Form 114 (FBAR), or possibly both.

Reporting requirements vary, but here's a brief overview:

▶ FinCEN Form 114 (FBAR)

If you have ownership or signature authority over foreign accounts with an aggregate value that exceeds $10,000 at any time during the calendar year, you need to file an FBAR electronically through the Treasury Department e-filing system at http://bsaefiling.fincen.treas.gov/main.html.

The FBAR due date recently changed from June 30 to April 18, 2017.

A six-month extension is available.

▶ Form 8938

Single taxpayers and those married filing separately, living **in** the United States, file Form 8938 if they hold at least $50,000 in foreign assets on the last day of the tax year, or have more than $75,000 in foreign assets at any time during the year. For married filing jointly, the threshold increased to $100,000 and $150,000 respectively.

Single taxpayers and those married filing separately, living **outside** the United States, use Form 8938 if they hold $200,000 or more in foreign assets on the last day of the tax year, or more than $300,000 at any time during the year.

For married filing jointly, the filing threshold is increased to $400,000 and $600,000 respectively. Form 8938 is filed with your individual tax return.

▶ Failure to file

Failing to properly file reports regarding your foreign financial information brings penalties up to $10,000. If the omission is deemed willful, you could lose up to 50% of the balance in the account. You will also need to keep adequate support documentation and make it available for inspection, if requested. ▮

NOTE: 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 summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us. ©MC