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Client Update

WINTER 2016

in this ISSUE

tax deadlines

JANUARY 17, 2017 – The fourth installment of 2016 individual estimated tax is due.

JANUARY 31 – Due date for employers to furnish W-2 statements to employees, and also file Forms W-2 with the Social Security Administration (both paper and electronic forms).

JANUARY 31 – Provide 1099 information statements to recipients.

JANUARY 31 – Due date for payers who report nonemployee compensation in box 7 of Form 1099-MISC to file Forms 1099-MISC with the IRS.

JANUARY 31 – Applicable large employers (generally employers with 50 or more full-time employees in the previous year) must furnish Forms 1095-C to employees.

JANUARY 31 – Employers must file 2016 federal unemployment tax returns and pay any tax due.

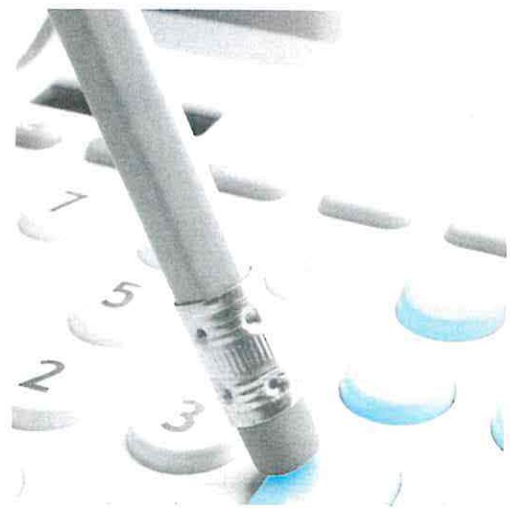
FEBRUARY 28 – Payers must file information returns such as 1095s and most 1099s (except certain Forms 1099-MISC due January 31) with the IRS.*

MARCH 1 – Farmers and fishermen who did not make 2016 estimated tax payments must file 2016 tax returns and pay taxes in full to avoid a penalty.

*March 31 if filing electronically

Keep your business healthy with a comprehensive annual checkup

Monitoring your business activities is a good "preventive care" approach to maintaining financial health. Here's what to review.



Accounting records

Are your accounting records supplying the data necessary for making sound decisions? A change in software might be the right medicine for your business. Clean up your accounts receivable and collect past due balances. Verify that your vendor records are ready for issuing Forms 1099, and that your payroll system is set up for the new earlier reporting deadlines.

Employees

Assess your employees through formal performance reviews. At the same time, listen to feedback your employees offer regarding work conditions, benefits – and perhaps your own managerial performance. Analyze your company's pay levels in light of industry standards. Determine whether your company is in compliance with current health insurance rules.

Equipment

Review your business equipment needs. A purchase by December 31 might provide a substantial tax deduction through bonus depreciation or Section 179 expensing. Inspect your computer hardware for wear and tear and end-of-life issues. Run a test of your backup processes to verify reliability.

Insurance

Update your general liability, building and contents, and employee dishonesty insurance. Research newer coverages, such as cybersecurity or data breach policies.

Online presence

Conduct an "audit" of your company website. Confirm that links are working properly. Take a fresh look at your home page for user-friendliness and marketing impact. Update your "about us" page contact information to remove old data and non-functioning email addresses.

Personal finances

When you own a business, your personal finances can be affected by your company's activities. If you hold substantial company stock, make sure your portfolio is properly diversified. Confirm that you've maximized your annual retirement plan contribution. Review life and disability insurance, your estate plan, and your will. ∎

IRS update

A break for medal winners

As of January 1, 2016, Olympic athlete medal winners who earn less than $1 million per year will no longer have to pay federal income tax on Olympic medals or prize money. The *United States Appreciation for Olympians and Paralympians Act of 2016* was signed into law on October 7, 2016, and is effective retroactively to the first of the year.

Taxpayers have more time to claim disaster losses

Under new IRS rules, taxpayers who have suffered a disaster loss have more time to decide whether or not to claim the loss on their prior-year federal income tax return. Before the new rules, the due date for making the election to claim the loss was generally April 15. Now taxpayers have until six months after the due date for filing the taxpayer's federal income tax return for the disaster year.

The social security wage base increases for 2017

The wage base for withholding social security tax from wages has increased to $127,200, up from $118,500 in 2016. The federal payroll tax rate remains 7.65%, with social security tax withheld at 6.2%, and Medicare tax withheld at 1.45%. There is no wage base for the 1.45% Medicare tax. Employers withhold that percentage on all wages.

2017 nanny tax threshold remains unchanged

The social security coverage threshold for domestic employees, including nannies, will remain at $2,000 for 2017, the same as the 2016 threshold. Employers whose household workers earn less than $2,000 do not have to pay social security or Medicare taxes on wages paid to those employees. Employers who pay more than the threshold are required to pay social security tax of 6.2% and Medicare tax of 1.45%. The $2,000 threshold applies separately to each employee.

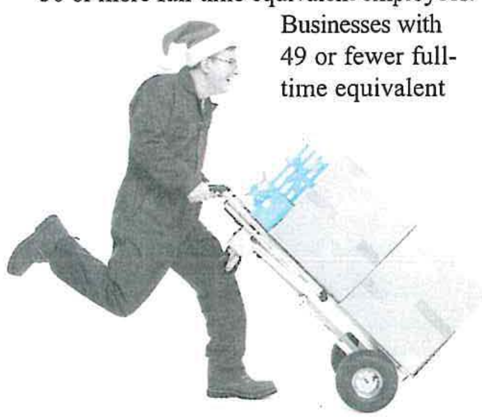
HOLIDAY SEASON WORKERS

Seasonal workers can affect your *Affordable Care Act* responsibilities

Do you intend to hire workers during the busy holiday season? Then you need to plan for those extra payroll responsibilities, plus the cost of training your new employees. In addition, you'll want to be aware of *Affordable Care Act* (ACA) rules.

• **Changes affecting your 2016 return.** Previously, the ACA required employers with 100 or more full-time equivalent employees to provide minimum essential health insurance coverage to at least 70% of full-time workers and their dependent children. This increased to 95% of full-time workers for 2016.

The "shared responsibility" penalty was also extended in 2016 to businesses with 50 or more full-time equivalent employees. Businesses with 49 or fewer full-time equivalent employees remain exempt from the requirements.



• **Seasonal workers.** The IRS says a "seasonal worker" is one who performs labor or services on a seasonal basis. For instance, if you operate a retail business, workers you hire solely during the holidays qualify as seasonal workers. Getting the definition right can determine whether you're subject to the shared responsibility penalty. Note that simply calling a worker "seasonal" isn't enough.

As a general rule, if your workforce exceeds 50 full-time employees for 120 days or fewer during a calendar year and the extra employees are seasonal workers, you may qualify for the "seasonal worker" exception to the penalty. Document your hiring practices and make sure your business is complying with the ACA throughout the year.

• **The penalties.** Generally, for 2016 returns, the penalty for each month your business fails to offer required coverage is based on a per-employee dollar amount. The first 30 workers are excluded from the calculation. You'll pay the penalty on your federal tax return.

Do you have questions? We're here to help.

Make the most of your vehicle expense deductions

Do you use your personal vehicle in the course of your work? You may be eligible for a deduction on your tax return for the business portion of your use. If you're an employee, you'll have to itemize on your personal tax return to benefit. If you're a sole proprietor, you can deduct your expenses on *Schedule C, Profit or Loss From Business.*

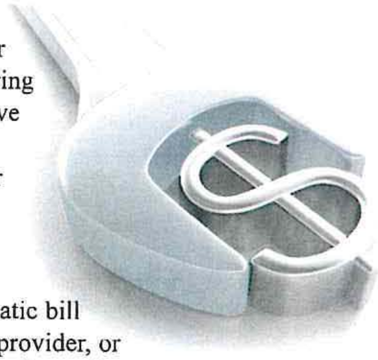
Actual or standard? You can choose to claim your actual expenses or use the standard mileage rate to calculate your deduction. If you use the actual expense method, you can deduct expenses such as gas, oil, insurance, interest, lease payments, and repairs. You'll generally also be able to claim depreciation on your vehicle, though you'll have to follow special rules if your business use of the vehicle falls below 50%.

The standard mileage rate for 2016 is 54¢ per mile. That flat rate includes most of the costs of operating your vehicle, as well as depreciation, though you can also deduct tolls and some parking expenses. If you choose the standard mileage rate in the first year you use your vehicle for business, you can later switch to actual costs.

The paperwork. No matter which method you use, keeping a detailed mileage log is a must. Complete the log at or near the time you use your vehicle for business purposes, and record the time and place of the business travel, the purpose, and the starting and ending odometer readings.

Contact us if you have questions.

Financial fine-tuning: Get your finances in shape for 2017



Do you intend to make major changes to your financial situation during 2017? One good way to achieve big goals is to start with small steps. Here are suggestions for fine-tuning your finances.

Shift out of automatic

Have you established automatic bill pay at your bank or service provider, or automatic charges to your credit card?

Small step: Look for payments for goods or services you no longer use, such as monthly recurring subscriptions.

Big goal: Reduce total expenses and increase savings.

Take the urgency out of emergency

Sure, you know having an account with enough funds specifically earmarked for emergencies is a good idea. But the amount you need to save seems overwhelming. The good news is you don't have to immediately fund six months of living expenses.

Small step: Set up a separate account with automatic deposits of $5 or $10 per paycheck, perhaps with funds you've redirected from those unused monthly recurring subscriptions.

Big goal: An emergency fund with enough cash to cover six months of expenses.

Give yourself credit

Maybe you intend to pay off your credit card debt. But do you have a plan? Knowing where you stand is the first step in getting to where you want to be.

Small step: Make a list of your cards, the balances, the minimum payments, and the interest rates.

Big goal: Eliminate finance charges by being able to pay off your balance each month.

Retire your excuses

Does your employer offer a retirement plan? If so, you may be leaving money on the table.

Small step: Find out what amount your employer will add to your account when you make contributions. These "matching" funds can increase your savings.

Big goal: Maximize your retirement contributions.

Small steps can lead to big improvements in your financial well-being. Contact us for more tips. ∎

Use this simple, free tool to proactively monitor your credit

With the increase in frequency and financial impact of identity theft, wouldn't you like a simple tool that can help you protect yourself? Here's one: Proactively monitoring your credit. These tips can get you started.

▶ **Obtain your credit report.** You can request a free copy of your credit report from all three credit bureaus once per year. Make sure to only request your report through the government-approved website and check all three because lenders may report to only one or two credit bureaus.

▶ **Review your report.** The report will list all credit associated with your social security number, including open and closed accounts. Use the report as a tool to review your current financial position and plan for the future.

For example, are there accounts you no longer need? You may want to contact the lender to close the account. Is that a good idea? While closing an account could affect your credit score, you may choose to do so for other reasons. For example, the card might have an annual fee you no longer want to pay, or you may worry the unused open account could be compromised through identity theft, especially if you are not in the habit of routinely monitoring that particular card.

Another question to ask is if your credit report contains discrepancies. Perhaps the listing shows accounts you don't believe are yours, or late payments that you feel are inaccurate. You can dispute these findings with the credit bureau to get your account cleaned up.

▶ **Know the score.** Your credit score is based on your credit report, though the two are not the same. The score is essentially an analysis of how likely you are to pay your bills and repay loans, summarized as a three-digit number. Scores typically range from 300 to 850. The higher your score, the better your prospects of being offered favorable interest rates, terms, and fees.

Monitoring your credit on a consistent basis is a simple process that can keep your account free of damaging information. Consider incorporating a review as part of your year-end financial routine.

For more tips about good financial management, contact our office. ∎

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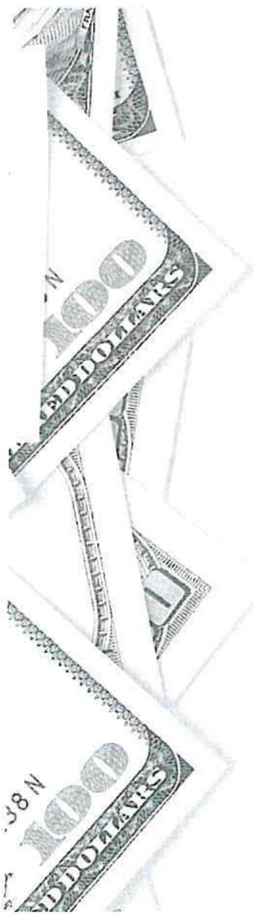
This valuable tax break offers benefits and surprises



It's a silent deduction, but valuable, and so common you might forget how complex it can be. What is it? If you answered "depreciation," you have probably bumped into these complex tax rules over the years. Here are two that may surprise you.

1. Some property does not qualify for immediate expensing

The Section 179 depreciation election lets you write off the cost of qualifying property in the current year. For 2016, the maximum amount you can expense is $500,000.

The surprise. Section 179 only applies to new or used assets you acquire for use in your trade or business. Even if you meet that requirement, certain property, such as buildings and fences or swimming pools, is not considered qualifying property. That means no Section 179 deduction, though you can claim depreciation under other methods. In addition, the Section 179 deduction can be limited on business vehicles.

2. Giving up depreciation deductions is not a good idea

You may have heard of "recapture." The tax term applies when you sell a business asset, and the effect is to take back, or recapture, some of the benefit of the depreciation deductions you claimed during the time you owned the asset.

Why does recapture apply if you don't take the deductions in the first place?

The reason has to do with another tax concept known as "allowed or allowable." Depreciation you actually deducted is "allowed." Depreciation you could have deducted – whether you did or not – is "allowable."

The surprise. Under the rules, you generally have to adjust the property's basis by depreciation that is either allowed or allowable.

Please contact us whenever you're considering buying or selling business property or equipment. We're happy to help you avoid surprises.

Thank you for giving us the opportunity to serve you. We appreciate your trust, your loyalty, and the confidence you have placed in us, and we value your business.

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.