CIRIMELLI, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Online Advisor – December 2017

Major Tax Deadlines For December 2017

For December 2017

* December 15 – Due date for calendar-year corporations to pay the fourth installment of 2017 estimated income tax.

* December 31 – Deadline to complete 2017 tax-free gifts of up to $14,000 per recipient.

* December 31 – Deadline for paying expenses you want to be able to deduct on your 2017 income tax return.

Note: Businesses are required to make federal tax deposits on dates determined by various factors that differ from business to business.

Payroll tax deposits: Employers generally must deposit Form 941 payroll taxes (income tax withheld from employees' pay and both the employer's and employees' share of FICA taxes) on either a monthly or semiweekly deposit schedule. There are exceptions if you owe $100,000 or more on any day during a deposit period, if you owe $2,500 or less for the calendar quarter, or if your estimated annual liability is $1,000 or less.

* Monthly depositors are required to deposit payroll taxes accumulated within a calendar month by the fifteenth of the following month.

* Semiweekly depositors generally must deposit payroll taxes on Wednesdays or Fridays, depending on when wages are paid.

For more information on tax deadlines that apply to you or your business, contact our office.

What's New In Taxes

Get ready to save more in 2018

You can save more for retirement next year using tax-advantaged accounts, thanks to a boost in the maximum 401(k) contribution rate by the IRS. The maximum rate increases by $500 to $18,500, which is the first increase in three years. Those aged 50 or older can still contribute an additional $6,000 on top of that amount.

This is good news, because a 401(k) is one of most potent tools in your retirement arsenal. It offers many benefits over other forms of saving, including:

* Tax-deferred growth**.** Pretax income of $18,500 invested over 30 years with 6 percent annual cumulative interest will grow to $111,901.92. That's compared with $67,588.76 of the same amount of income invested after being taxed at the highest rate. While you'll owe tax on 401(k) withdrawals after retirement, you may be able to manage your 401(k) withdrawals to fall into a lower income bracket.

* Roth option. You may opt to make your contributions to a 401(k) as a Roth investment, meaning you invest post-tax income, but you can withdraw from your Roth tax-free during retirement. A mix of traditional and Roth accounts will give you flexibility to manage your income tax rate during retirement.

* Company match. Many companies offer to match the first few percentage points of their employees contributions to a 401(k). Even if you can't max out your contribution, you should try to invest up to your company's match limit. Otherwise, you're just leaving money on the table.

While 401(k)s have great utility, they come with a few downsides. Any withdrawals made before age 59 1/2 are assessed a 10 percent penalty fee, in addition to being taxed as regular income during the year they are withdrawn. Any investments in 401(k)s are also limited to a few choices set by your employer's retirement plan, so a limited number of conventional investment options in mutual funds is one of the trade-offs of using a 401(k).

Social Security also gets a boost in 2018

The federal retirement safety net system, Social Security, also gets a boost during 2018. The average estimated monthly benefit paid to retirees in 2018 will be $1,404 in 2018, up from $1,377 in 2017. The maximum amount of wages subject to Social Security taxes rises to $128,700 in 2018, up $1,500.

5 tax tips for job changers

There are a lot of new things to get used to when you change jobs, from new responsibilities to adjusting to a new company culture. You may not have considered the tax issues created when you change jobs. Here are tips to reduce any potential tax problems related to making a job change this coming year.

1. Don't forget about in-between pay. It is easy to forget to account for pay received while you're between jobs. This includes severance and accrued vacation or sick pay from your former employer. It also includes unemployment benefits. All are taxable but may not have had taxes withheld, causing a surprise at tax time.

2. Adjust your withholdings. A new job requires you to fill out a new Form W-4, which directs your employer how much to withhold from each paycheck. It may not be best to go with the default withholding schedule, which assumes you have been making the salary of your new job all year. You may need to make special adjustments to avoid having too much or too little taken from your paycheck. This is especially true if there is a significant salary change or you have a period of low-or-no income. Luckily, you can use the withholding calculator the IRS provides on its website. Keep in mind you'll have to fill out a new W-4 in the next year to rebalance your withholding for a full year of your new salary.

3. Roll over your 401(k). While you can leave your 401(k) in your old employer's plan, you may wish roll it over into your new employer's 401(k) or into an IRA. The best way is to get your retirement funds transferred directly between investment companies. If you take a direct check, you'll have to deposit it into the new account within 60 days, or you may be assessed a 10 percent penalty and pay income tax on the withdrawal.

4. Deduct job-hunting expenses. Tally up your job-seeking expenses. If they and other miscellaneous deductible expenses total more than 2 percent of your adjusted gross income for the year, you can deduct them on an itemized return. This includes things like costs for job-search tools, placement agencies and recruiters, and printing, mailing and travel costs. A couple caveats: you can only use these deductions if your expenses were to search for a job in the same industry as your previous job, and you were not reimbursed for them by your new employer.

5. Deduct moving and home sale expenses. If you moved to take a new job that is at least 50 miles farther from your previous home than your old job was, you can also deduct your moving expenses. There's another benefit for movers, too. Typically, you can only use the $250,000 capital-gain exclusion for home sales if you lived in your primary residence for two of the last five years before you sold it. But there is an exception to the rule if you sold your home to take a new job.

Finding a new job can be an exciting experience, and one that can create tax consequences if not handled correctly. Feel free to call for a discussion of your situation.

New Business

Business year-end tax moves "Give your business some holiday cheer"

Even though the end of 2017 is near, it is not too late to get your business into the best possible tax position for the new year.

Here are some year-end tax moves to consider:

* Consider vehicle purchases**.** There are several tax deductions available if you own a vehicle for business use. General expenses can be tax-deductible, including fuel, oil changes, general repairs and even new tires. Depreciation, insurance and interest on a business car loan are also tax-deductible expenses. While there are special limits to the amount that can be depreciated for most vehicles each year, the benefits can often outweigh the costs.

* Update the office. A fresh coat of paint and new office furnishings not only make your place of business more comfortable, they also provide another tax deduction. How you handle deducting these expenses will vary depending upon whether you own or lease your office space, so reach out for assistance if you have questions.

* Reward your staff. If you have sufficient cash flow, giving your staff a year-end bonus is a great way to let them know you appreciate them. It's also tax-deductible.

* Treat a client. If there are clients you haven't contacted in a while, it's a good time of the year to take them out for a nice (not lavish) breakfast or dinner and deduct 50 percent of the meal. Who knows, you may be able to generate some new business while you collect a tax benefit.

* Update your skills. Attend a workshop or conference to improve your professional skills. While there are some limitations, many travel, lodging and out-of-pocket expenses related to professional training are tax-deductible.

* Plan for the future. If you don't already have some type of retirement plan for yourself and your employees in place, now may be a good time to set one up. There are tax credits and other incentives available to employers who start a retirement plan. Employer contributions to the plan are usually tax-deductible. There are a variety of plans available depending upon the kind of business you do, each with their own rules and regulations.

* Be nimble. Recent discussions in Congress could mean a dramatic change in taxes on business profits beginning in 2018. Stay abreast of these developments in case you need to make last-minute moves to shift profits from one year to the next to reduce your tax rate.

There are a lot of nuances in the tax code affecting each of these end-of-year moves. Don't hesitate to get in touch if you need advice.

Credit card transactions pose audit risks for biz owners

Small business owners beware: the IRS may more closely scrutinize reporting of credit card transactions after it was criticized for lax enforcement.

The IRS' overseer, the Treasury Inspector General for Tax Administration (TIGTA), recently said the IRS had been missing opportunities to audit tax returns that had large discrepancies between income and the card payments reported on Forms 1099-K.

This means small businesses that accept credit, debit or gift card payments can expect to draw the attention of IRS auditors if there are material differences between what is reported on their tax returns and what is on their 1099-Ks.

Tax gap concern driving the scrutiny

TIGTA has estimated an underpayment of more than $450 billion in income taxes every year. In an effort to close this "tax gap," it recommended the IRS focus on some of the larger or more obvious sources of underpayment.

One area TIGTA identified was on Forms 1099-K, where more than 20,000 taxpayers who received them had discrepancies of more than $10,000 on their returns. Calculating from these minimum numbers, there was at least a $200 million underpayment.

Who is impacted

If you have a business that accepts payment cards like debit cards or credit cards, you will probably receive a Form 1099-K from your payment processor. The form is also required for anyone who has $20,000 in card payments and 200 transactions or more per year. Examples of those who would receive Forms 1099-K include users of PayPal, sellers on Etsy, cab drivers and any small business that accepts card transactions as a form of payment.

Here's how you can prepare

Receiving a Form 1099-K and reporting it in such a way that the IRS is satisfied can be complicated. You could easily double-report your revenue from 1099-Ks out of an excess of caution. Or, you may be not be disclosing your correct reporting of card income in a way that IRS audit programs are able to identify. It's often best to get professional guidance to ensure your return does not stick out when the IRS tries to comply with the TIGTA request for more oversight.

Don't dig yourself into holiday debt

The pressure to please everyone with gifts during the holiday season can be immense. But if you succumb to the temptation to overcharge your cards or dig into your savings, you'll start off the new year with a hole burned in your pocket.

Here are some tips to help you stay financially sound through the holidays.

Budget

The best way to avoid overextending yourself this holiday season is with a budget. Start with realistic assumptions about how much you can afford to spend and still pay off any balances on your January credit card bills.

If you think you'll have trouble sticking to your budget, try the cash-in-an-envelope method. Set aside an envelope with your holiday gift spending money, and only go shopping with the cash you intend to spend on that trip. That will force you to be purposeful with your spending and determined to keep within your budget.

Prioritize

Sometimes it's hard to say no, but does everyone need a gift this holiday season? Start allocating your budget to your closest family and friends, those you see every day and rely on most. Then work outwards to more distant family members, friends and co-workers. Not everyone in those outer rings needs a gift or even a Hallmark card. Instead, you could send a holiday greeting email that still expresses your love and appreciation, but at little cost.

Things other than money

You can get creative with gifts that express what you have to offer as an individual. A gift of your time and skills can be more thoughtful than something bought in a store. Piano lessons, a home-cooked meal, free baby-sitting and offers of repairs if you have craftsman skills are just some examples.

Try to offer a gift that the recipient would readily accept with gratitude.

Don't forget the reason for the season

Consider slowing down as the pace of the season picks up. A quiet night at home with friends and loved ones can be the greatest gift of all. (P.S. Make it a potluck so you don't have to buy all the food.)

What's New In Financial Strategies

Get a better banking deal

As bank customers, we're used to getting almost no interest on our balances. The U.S. Federal Reserve dropped interest rates to an historic low of 0.25 percent during the 2008 financial crisis, and kept them there for seven years. The central bank is only now beginning to accelerate the pace of rate hikes. It's targeting a 1.4 percent federal funds rate by the end of 2017, and 2.1 percent by the end of next year.

Along with these higher rates comes the possibility of getting better returns on the money parked in your traditional bank account. Here are a few options to consider:

1. Online savings accounts

Online savings accounts often offer higher returns on your money, lower fees, or both. Several online savings banks are offering 1.5 percent returns on balances as of the fourth quarter of 2017. That compares with the national average return of all savings accounts of just 0.09 percent, according to the independent consumer banking information site Bankrate.com. Online savings accounts do have a downside: less service. There is no branch to go to, so any problems or complaints will have to be dealt with remotely. Many online accounts don't provide ATM cards for convenient cash withdrawals. And online accounts may arguably be more vulnerable to cyber attacks and scams.

"Is it for you? If you can be diligent about your online security and don't mind some of the physical limitations, online savings accounts are among the best places to get a good return."

2. Money market accounts

Money market accounts are invested in low-risk securities and typically offer higher rates of return than traditional savings accounts. Some offered as much as 1.4 percent during the fourth quarter, according to Bankrate.com. They also have some features of checking accounts, including the ability to write a limited number of checks per month, and ATM withdrawals. Money markets do have some drawbacks: most require you to maintain a minimum balance of a few thousand dollars or more. Money market rates fluctuate, and can even turn negative in times of severe financial stress, as happened during the 2008 financial crisis.

"Is it for you? Money markets are a good option if you want higher rates of return along with the utility of a checking account."

3. Certificates of deposit

If you want the highest return possible on cash savings, a certificate of deposit (CD) with your brick-and-mortar bank may be the way to go. But CDs require you to commit the money to the bank for a set period of time, and you pay a penalty if you withdraw money early. The best returns on one-year CDs were 1.75 percent during the fourth quarter, according to Bankrate.com.

"Is it for you? Consider CDs if you're certain you won't need the money for a year or more. Though CDs are available for terms of five years or longer, you should consider that higher returns may become available if the Fed continues to raise rates."

Don't forget these 3 steps

Remember to do the following before you migrate funds to any new bank:

* Check out the bank. Not all banks are created equal. Check to ensure there are few consumer complaints and that the bank is in good financial condition.

* Check that balances are insured. Federal Deposit Insurance Corporation (FDIC) insurance is standard in the U.S., but double-check it.

* Expect interest taxes. All the above accounts provide interest subject to ordinary income taxes.

CIRIMELLI, PYLE AND ASSOCIATES LLP
PHONE: (408) 879-9990 FAX: (408) 879-0992