



Online Advisor – October 2017

Major Tax Deadlines For October 2017

For October 2017

- * October 16 – Filing deadline for 2016 tax returns for individuals or corporations if you requested/received a six-month extension. Pay taxes due by this date.
- * October 16 – Deadline to recharacterize a Roth IRA to a Traditional IRA.
- * October 16 – Deadline to fund your Keogh or SEP plans if you requested a filing extension.

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

Renew your ITIN now

If you have an Individual Taxpayer Identification Number (ITIN) rather than a Social Security number (SSN) you may need to take action or you'll be unable to file a tax return for 2017. Here is what you need to know.

What to know about ITINs

ITINs are identification numbers issued by the U.S. government for individuals who do not qualify to receive an SSN. An ITIN can be used to file tax returns and is also a form of identification often required by banks, insurance companies and other institutions. Unfortunately, ITINs are also a source of identity fraud. To combat this, the 2015 PATH Act made substantial changes to the program. Now a number of ITINs will expire if not renewed by December 31, 2017.

No ITIN, no problem. If you do not have an ITIN, but have an SSN, this expiration does not affect you.

No tax return in past three years. ITINs that have not been used to file a tax return at least once in the past three years will automatically expire on December 31, 2017.

Middle digits of 70, 71, 72 and 80 also expire. The new law creates a rolling expiration date for all issued ITINs. The key number to look for is in this position: 9xx-XX-xxxx. If your ITIN has any of those numbers, you'll need to renew it. Last year the middle digits of 78 and 79 expired.

Renew your ITIN

Don't wait until the last minute and then discover your tax return has been rejected and your refund is delayed because of an expired ITIN. To renew, fill out Form W-7 with the required support documents. To learn more, visit the ITIN information page on the IRS website.

5 tax-loss harvesting tips

Though the markets have been up strongly this year, your investment portfolio may have a few lemons in it. By using the tax strategy of tax-loss harvesting, you may be able to turn those lemons into lemonade. Here are some tips:

Tip #1: Separate short-term and long-term assets. Your assets can be divided into short-term and long-term buckets. Short-term assets are those you've held for a year or less, and their gains are taxed as ordinary income. Long-term assets are those held for more than a year, and their gains are taxed at the lower capital gains tax rate. A goal in tax-loss harvesting is to use losses to reduce short-term gains.



"Example: By selling stock in Alpha Inc., Sly Stocksale made a \$10,000 profit. Sly only owned Alpha Inc. for six months, so his gain will be taxed at his ordinary income tax rate of 35 percent (versus 15 percent had he owned the stock more than a year). Sly looks into his portfolio and decides to sell another stock for a \$10,000 loss, which he can apply against his Alpha Inc. short-term gain."

Tip #2: Follow netting rules. Before you can use tax-loss harvesting, you have to follow IRS netting rules for your portfolio. Short-term losses must first offset short-term gains, while long-term losses offset long-term gains. Only after you net out each category can you use excess losses to offset other gains or ordinary income.

Tip #3: Offset \$3,000 in ordinary income. In addition to reducing capital gains tax, excess losses can also be used to offset \$3,000 of ordinary income. If you still have excess losses after reducing both capital gains and \$3,000 of ordinary income, you carry them forward to use in future tax years.

Tip #4: Beware of wash sales. The IRS prohibits use of tax-loss harvesting if you buy a "substantially similar" asset within 30 days before or after selling it at a loss. So plan your sales and purchases to avoid this problem.

Tip #5: Consider administrative costs. Tax-loss harvesting comes with costs in both transaction fees and time spent. One idea to reduce the hassle is to make tax-loss harvesting part your annual tax planning strategy.

Remember, you can turn an investment loss into a tax advantage, but only if you know the rules.

What's New in Business

Business tax: time to consider Section 179?

Section 179 expensing can be a very powerful tax-planning tool for small- and medium-sized businesses acquiring capital assets. While it doesn't change the amount of depreciation you can take over the life of a capital purchase, it can change the timing by allowing you to deduct your purchase in the first year you place it in service.

How does Section 179 work?

Generally, when you purchase a piece of equipment for your business - say a \$10,000 computer system - you can't deduct the entire cost in the year it was purchased. It must take the expense by depreciating the cost over several years.

Section 179 allows you to deduct the cost of the \$10,000 computer in the year it was purchased and placed in service. You can deduct the expense of up to \$510,000 of qualified property. The \$510,000 deduction begins



phasing out dollar for dollar if \$2.03 million or more of qualified property is purchased during the year (meaning it phases out completely after you've purchased \$2.54 million in business capital assets).

What is qualified property?

Qualified property includes things like tangible personal property, computer software and qualified real property (e.g., interior building costs for nonresidential buildings).

Section 179 doesn't apply to property acquired for use in a rental property if it's not your trade or business but simply an investment. Some vehicles qualify for Section 179 expensing, within limits. (The limits were brought about when some business owners bought expensive Hummers and expensed the cost in a single year.)

If you are considering your options for depreciating your business assets under Section 179, here are important details to remember:

- * Section 179 allows deducting the expense of up to \$510,000 of qualified business purchases.
- * A Section 179 deduction cannot create a loss for the business.
- * A Section 179 deduction must be for business use. If an asset is not entirely used for business, the allowance is reduced.
- * If you sell a Section 179 asset prior to the full depreciation period, you will have to record any sales proceeds as taxable income.
- * Many states limit the use of this federal shifting of depreciation.

Taking Section 179 for capital purchases can be useful, but it's not for everyone. Using Section 179 for an immediate tax break means it'll no longer be available for future years. Consider this as you manage your business's tax obligation.

The dos and don'ts of business expensing

Knowing whether you can or can't expense a purchase for business purposes can be complicated. That's why there are a few hard and fast rules to help you make the best decisions.

According to the IRS, business expenses must be ordinary and necessary to be deductible. That means they are common and accepted in your business, as well as helpful and appropriate. You'll need to maintain records (such as journals and ledgers) and supporting documents (e.g., receipts, invoices) to substantiate your deductions. Certain expenses are subject to extra requirements, as described below.



Travel expenses pertain to business trips and can include transportation to and from: your destination, airports, your hotel and business meeting places. They also generally include lodging, meals, tips and other related incidentals.

Do:

* Maintain trip logs describing your business expenses and the purpose of each. If your trip is mostly for business but includes personal components, separate them in your log. These nondeductible personal items could include extending your stay for a vacation or taking personal side trips.

* Deduct travel-related meal costs, but only up to the 50 percent are allowed by the IRS.

Don't:

* Rely on estimates to determine the business vs. personal components of your expenses.

* Deduct any of your travel expenses if your trip is primarily for personal purposes.

* Deduct any of your meal costs if they could be considered unreasonably "lavish or extravagant."

Entertainment expenses need to be either directly related to or associated with the conduct of your business. That means that business is the main purpose of the activities and it's highly likely you'll get income or future business benefits. Expenses from entertainment that isn't considered directly related might still be deductible if they are associated with your business and happen right before or after an important business discussion.

Do:

* Keep records of entertainment expenses, including clear descriptions of the nature, dates and times of the pertinent business activities or discussions.

* Deduct only up to 50 percent of entertainment expenses, as allowed by the IRS.

Don't:

* Claim the costs of pleasure boat outings or entertainment facilities (e.g., hunting lodges).

Business use of your personal car is calculated according to your actual business-related expenses, or by multiplying your business mileage by the prescribed IRS rate (53.5 cents per mile in 2017). This is called the standard mileage rate.



Do:

- * Log odometer readings for each business trip and record your business purpose.
- * Claim actual basis deductions by applying the ratio of your business-to-total mileage.

Don't:

- * Claim mileage or expenses pertaining to commuting to and from work.

What's New in Finances

How to ace the FAFSA

The Free Application for Federal Student Aid (FAFSA) is a tool that students use to apply for more than \$120 billion in federal funds. Unfortunately, each year many students miss out. A report from NerdWallet estimates that \$1,861 per eligible high school graduate went unused in free federal grant money during 2014 because they did not complete a FAFSA.

Even if you don't think you or your child qualify for federal aid, filling out a FAFSA is important because it could be used to determine eligibility for nonfederal aid and private funds.

FAFSA available October 1, 2017

Previously, the FAFSA was not available until January. A recent change now makes the application available October 1, 2017. This is because the 2018-19 FAFSA can be completed with your 2016 tax information.

Avoid FAFSA mistakes

Don't forgo federal student aid by making one of the following common filing mistakes:

Mistake: Not reading the instructions or questions

Tip: Answer all questions - even if the answer is zero. If left blank, the question will be considered unanswered. Here are some quick tips:

- * Write dollar amounts without cents.
- * Understand the definitions of key FAFSA language including: legal guardianship, parent and household size.



- * "You" and "your" refer to the student, not the parents.
- * Provide parent information if you or your child is considered a dependent student.
- * Use the available resources, FAQs and FAFSA Information Center.

Mistake: Incorrect, incomplete or non-matching data

Tip: Complete the FAFSA online. Although you can complete the FAFSA on paper, it takes only 3-5 days to process when submitted electronically. The online version has built-in safeguards that identify and prevent many errors. Plus, the IRS Data Retrieval Tool can import information directly from your tax return. Logging in with a Federal Student Aid (FSA) ID will automatically load basic information (e.g., name, DOB, Social Security number), reducing the likelihood of typos. You even receive confirmation of receipt once you submit your online application.

Mistake: Not filing on time

Tip: Note the earlier FAFSA filing date and get the application submitted as soon as possible. The sooner you or your child gets started, the higher the likelihood of being awarded funds since many are distributed on a first-come, first-served basis.

Remember, students need to complete a FAFSA each year because eligibility does not carry over and can vary based on circumstances. Students can use the FAFSA Web Worksheet now to gather and organize the data needed for their application.

How to fix your overfunded account

Is socking away large sums in a tax-deferred retirement account ever a bad idea? It is when you exceed the annual IRS limits. And intentional or not, the penalties can be painful. Here's how overfunding occurs and what steps to take to fix the problem.

When do overfunding situations occur?

Overfunding retirement accounts happens more than you may realize. It can be the result of a job change that causes you to participate in the two different employer retirement plans. Sometimes people forget they made IRA contributions early in the year and do it again later. Others forget that the IRA limit is the total of all accounts, not per account. The rules are complicated. Traditional IRAs can't be contributed to after age 70½, while Roth IRA contributions are subject to income limits. Plus all contributions are predicated on having earned income.



IRAs

The annual Roth and Traditional IRA contribution limit is \$5,500 (\$6,500 if age 50 or older). If you surpass this amount, you pay a 6 percent penalty on the overpayment every year until it's corrected, plus a potential 10 percent penalty on the investment income attributed to the overfunded amount.

"The fix:" If the overfunding is discovered before the filing deadline (plus extensions), you can withdraw the excess and any income earned on the contribution to avoid the 6 percent penalty. You will potentially owe 10 percent on the earnings of the excess contributions if you're under age 59½. You can apply the withdrawn contribution to the next year. If your issue is due to age (70½ or older for a Traditional IRA) or income limit (for a Roth IRA), consider recharacterizing your contribution from one IRA type to another.

401(k)s

The rules for correcting an overfunded 401(k) are a little more rigid. You have until April 15 to return the funds, period. The nature of the penalty is also different. The excess amount is taxable in the year of the overfunding, plus taxable again when withdrawn. So, you pay tax twice on the same amount. And in certain cases, overfunding a 401(k) could cause it to lose its qualified status.

No matter the cause, if you are in doubt about how to handle excess contributions, give us a call.

The information contained in this newsletter is of a general nature and should not be acted upon in your specific situation without further details and/or professional assistance. For more information on anything in the Online Advisor, or for assistance with any of your tax or business concerns, contact our office.

