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INSIDE THIS ISSUE

President-elect Trump's Tax Plan

What will a Trump plan mean for your tax bill

2016 Year-end Tax Planning

Strategies to minimize your tax bill for 2016 including funding retirement plans, harvesting capital losses, bunching deductions & more

Identity Theft Update

The use of private debt collectors by the IRS and the latest criminal scams

PRESIDENT TRUMP: WHAT COULD IT MEAN FOR YOUR TAX BILL?

On November 8, 2016 Donald Trump became the 45th President elect of the United States AND the Republicans retained control over the House and Senate. Consequently, the GOP has control over future tax policy and so we may be in for some big changes. While it is difficult to predict which elements of Trump's campaign tax plan will actually become policy the following is an overview of its major components:

- Consolidates the current seven tax brackets into three, with rates on ordinary income of 12 percent, 25 percent, and 33 percent and adapts the current rates for qualified capital gains and dividends to the new brackets. (Table 1- from the Tax Foundation).

Table 1. Individual Income Tax Brackets Under the Trump Plan

Ordinary Income Rate	Capital Gains Rate	Single Filers	Married Joint Filers
12%	0%	$0 to $37,500	$0 to $75,000
25%	15%	$37,500 to $112,500	$75,000 to $225,000
33%	20%	$112,500+	$225,000+

- Eliminates the 3.8% Net Investment Income Tax on those who make over $200,000, single and $250,000 married filing jointly.
- Reduces the corporate tax rate from 35% to 15% for all business income – even income earned by an individual from an S corporation, partnership, or sole-proprietorship.
- Eliminates the head of household filing status.
- Increases the standard deduction from $6,300 to $15,000 for singles and from $12,600 to $30,000 for married couples filing jointly, however, eliminates the personal exemption.
- Caps itemized deductions at $100,000 for single filers and $200,000 for married couples filing jointly.
- Makes childcare costs deductible from adjusted gross income, up to the average cost of care in their state. The deduction would be phased out for individuals earning more than $250,000 or couples earning more than $500,000.
- Creates new saving accounts for care for children or elderly parents, or school tuitions, and offers a 50 percent match of contributions.
- Eliminates the individual alternative minimum tax.

The above is based on President-elect Trump's statements and proposals during the campaign. It is uncertain how his plan will change after taking office or what compromises will be made working with the House Ways and Means Committee's tax refrom legislation currently in-the-works.

2016 YEAR END PLANNING

The one day on the annual tax calendar that may matter even more than April 15 is December 31. (Although this year it's technically December 30, 2016, which is the last business day of the year.) That's the deadline for many moves that could reduce what you owe—or increase what you get back—when you file your 2016 income tax return. Some possible year end strategies include:

Every taxpayer's situation is different. You are highly encouraged to call our office to discuss whether these strategies will work for you.

Year-end dos and don'ts	
	Do contribute to tax-deferred retirement plans and health savings accounts.
	Do contribute to charities.
	Do consider selling losing investments to offset capital gains.
	Do consider bunching deductions, or saving them for next year.
	Don't forget minimum required distributions if you've reached $70^{1/2}$
	Don't forget to check your tax payments to avoid any underpayment penalty

Contribute to a retirement plan or health savings account (HSA)

Lower your taxable income by maximizing your contributions to your 401(k), 403(b) or similar workplace retirement plan. For example, if you're in the 25% tax bracket you could save $250 in current-year taxes for every additional $1,000 you contribute. The maximum you can contribute to a 401(k) for 2016 is $18,000. If you're age 50 or older, you can contribute an extra $6,000, for a maximum contribution of $24,000.

A traditional IRA and Simplified Employee Pension (SEP) IRA offer similar tax breaks to a 401(k), although you have until April 15 of next year (plus any extensions) to make a contribution. The maximum IRA contribution for this year is $5,500 for eligible taxpayers under age 50, and $6,500 for those 50 and older. SEP contributions by self-employed individuals are limited to $53,000 or 25% of eligible income, whichever is less.

Contribute to your Health Savings Account (HSA). If you are enrolled in a high-deductible health plan (HDHP), see if you are contributing the max $3,350 for an individual and $6,750 for a family, plus an extra $1,000 if you are age 55 or older. An HSA has triple tax benefits. Your contributions are made with pretax dollars so you reduce your current taxable income, earnings are federal and state tax free, and so are withdrawals if used to pay for HSA-qualified medical and health care expenses.

Donate to Charity

Charitable giving can be a great way to potentially lower taxes in addition to contributing to worthy causes. But if you're making a donation just for tax reasons, be sure your itemized deductions exceed the standard deduction. For 2016, the standard deduction—the amount you can deduct if you decide not to itemize—is $6,300 for a single taxpayer, $9,300 for a head of household, and $12,600 for a married couple filing jointly. Charitable deductions are limited to 50% of your adjusted gross income (AGI). Be sure to keep a record of all contributions, regardless of the amount, in the form of a bank or credit card statement or receipt from the eligible organization. Also, a written acknowledgement from the charity is required for ALL gifts (cash and property) worth $250 or more.

Harvest Capital Losses

If you sold stocks or other capital assets (rental property, car, jewelry, stamp collection, etc) and realized a gain on the sale, you may want to examine your investment portfolio to "harvest" any losses. Cashing out stock with a loss will offset gains and lower your tax liability. If it is a stock you particularly favor you can buy back the stock AFTER 30 days. This avoids the wash sale rules, which would disallow the loss.

Bunch Deductions

Accelerate paying certain expenses into 2016 to take advantage of larger deductions, credits and other tax breaks such as child tax credits and higher education. Pay your real estate tax bill early or make an extra mortgage payment (deductible interest). Pay the college tuition bill or daycare bill, make a charitable donation, or pay any outstanding medical expenses in December.

For those 65 or older, the "floor" beneath medical expense deductions is 7.5% of adjusted gross income (AGI) for 2016. This floor will rise to 10% of AGI next year meaning less will be deductible in 2017 & beyond.

Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2016 deductions even if you don't pay your credit card bill until after the end of the year.

This advice comes with a word of caution … plan ahead. Be sure to consider what you expect your tax situation to be the following year. If you expect your income to be higher, for example, you might want to bunch your deductions next year instead of this year. Complicating this decision even further is the question whether our tax rates will change in 2017 as proposed by president-elect Trump. It is uncertain, at this time, whether a final tax reform bill could move forward quickly enough to impact taxpayers for 2017. If it did many taxpayers would find themselves in lower tax brackets next year (see front cover article), thereby emphasizing the case for bunching deductions in 2016.

Take your Required Minimum Distributions

The penalty for failure to take your required minimum distribution (RMD) from tax-deferred retirement accounts like a traditional IRA and 401(k) can be up to 50% of the shortfall. The deadline for taking your 2016 RMD is December 30, unless you turned 70½ this year, in which case you get a grace period until April 1 of next year to make your first withdrawal. Keep in mind, however, that if you turned 70½ this year and wait until next year to take your 2016 RMD, you'll owe taxes on two RMDs, the one for 2016 and the one you need to take by the end of 2017.

Avoid an underpayment Penalty

Whether you have taxes withheld from your paycheck or you make quarterly estimated tax payments you should make sure you are paying enough during the year to avoid any underpayment penalty. This is particularly important in years when you have major life changes such as a change of jobs or marital status, started a business or retired or you moved. Generally, to avoid the penalty you should have paid in during the tax year at least the lower of: (1) 90% of your 2016 tax liability or (2) 100% of your 2015 tax liability or 110% if your AGI exceeds $150,000. However, if you owe less than $1,000 when you file your return no penalty applies.

IDENTITY THEFT – THE LATEST ISSUES

Private collection agencies to start collecting tax debts in the spring

In the spring of 2017 the IRS will begin using private debt collection agencies to collect overdue tax liabilities from taxpayers. In light of continual phone scams where criminals impersonate IRS agents and request immediate payment, this adds even further confusion. If you owe the IRS back taxes and receive a call, here is what you need to know:

- A private collection agency for the IRS will NOT ask for payment on a prepaid debit card. They will only INFORM you of electronic payment options available on IRS.gov. Payment by check should be payable to the U.S. Treasury and mailed directly to the IRS, NEVER to the collection agency.
- The IRS will give each taxpayer written notice that their account is being transferred to a collection agency. The agency will then send a second letter confirming the transfer.
- The IRS will not transfer to a private collection agency any of the following taxpayer accounts: Taxpayers under 18, Victims of identity theft, taxpayers with installment agreements or offers in compromise, taxpayers with innocent spouse status, and taxpayers in designated combat zones or federally declared disaster areas.
- Four collection agencies have been selected by the IRS:
  - CBE Group, Cedar Falls, IA
  - Conserve, Fairpoint, NY
  - Performant, Livermore, CA
  - Pioneer, Horseheads, NY

Recent tax scams to be aware of

Criminal schemes designed to trick you into providing personal information or making tax payments you don't owe, to individuals who are not Uncle Sam, continue to evolve. Here is a list of the latest you should be aware of:

- Email phishing scam asking you to "Update your IRS e-file". These emails include a link to a bogus web site intended to mirror the official IRS web site and contain the direction "you are to update your IRS e-file immediately." They mention USA.gov and IRSgov (without a dot between "IRS" and "gov"). These emails are not from the IRS. THE IRS WILL NEVER EMAIL YOU!

- Email with a fraudulent version of a CP2000 IRS Notice, purporting to contain a tax bill related to the Affordable Care Act. The CP2000 appears to be issued from an Austin, Texas, address and requests that taxpayers mail a check made out to "I.R.S." to the "Austin Processing Center" at a Post Office Box address. This is in addition to a "payment" link within the email itself. A CP2000 would NEVER be sent via email from the IRS.

  Do not respond to these emails or click on any links. Instead forward the email to the IRS at phishing@irs.gov.

- Phone calls demanding payment for a non-existent "Federal Student Tax". Scammers try to convince people to wire money immediately. If the victim does not comply quickly enough the scammer threatens to report the student to the police.

- Phone call saying they have your tax return, and they just need to verify a few details to process your return. The scam tries to get you to give up personal information such as a Social Security number or personal financial information, such as bank numbers or credit cards.

  Do not give out any information and hang up immediately. Contact TIGTA (US Treasury Inspector General) at 800-366-4484 or report it to the Federal Trade Commission at FTC.gov.

YOUR 2016 TAX RETURN – Important Matters

DEADLINE TO DROP OFF YOUR TAX PAPERWORK: MARCH 24, 2017

Clients with incomplete tax paperwork after this date WILL be put on extension and charged a fee of $85.00 to file the extension.

- **REFUND DELAYS**: The IRS *will NOT issue any tax refunds before February 15, 2017* for those claiming the Earned Income Credit or Additional Child Tax Credit. The measure is being made to combat identity theft and the filing of false tax returns. The extra time will allow them to match W-2 Information with wages reported to social security.

- **CHILDREN IN COLLEGE:** If you have a child in college we MUST have the 1098-T, Tuition Statement AND a copy of the bursar bill in order to claim the education credits. New tax code REQUIRES it. Please include these documents with your tax paperwork. If you did not receive 1098-T you can contact the school or obtain a copy at www.1098t.com.

- **FOREIGN ASSET REPORTING DEADLINE:** If you have foreign assets or foreign bank accounts the filing deadline for your FBAR (FinCen 114) is now April 15th with a six-month extension available upon request.

- **HEALTH INSURANCE:** If you bought health insurance through the government marketplace we MUST have your Form 1095-A to complete your return. This form should be in the mail by January 31, 2017. If you do not receive your 1095-A or there are errors on the form contact the Health Connector at 1-877-623-7873 if you live in Massachusetts. All other states should log onto healthcare.gov or call 1-800-318-2596.

- **HEALTH CARE PENALTY:** The penalty for not having health insurance has more than doubled. Now, it is the greater of $695 for each adult and $347.50 for each child (not to exceed $2,085) or 2 ½ percent of household income minus the amount of your tax-filing threshold.

- **FOR OUR BUSINESS CLIENTS:** 1099's and W-2's MUST be issued by January 31, 2017 or a $50.00 penalty applies PER late 1099 or W-2. To meet this deadline and avoid the penalty, we MUST have your data by January 15th. NO EXCEPTIONS.

- **NEW TAX DOCUMENTS NEEDED FOR TAXPAYERS WITH CHILDREN:** The IRS has increased the due diligence requirements for anyone claiming the earned income credit (EIC), Child Tax Credit (CTC) or American Opportunity Education Credit (AOC). There is a $510 penalty per credit ($1,530 per return) assessed to the tax preparer for NOT documenting the taxpayer's eligibility for the credit. If you have children and are claiming ANY of the above credits we will need PROOF that that child resided with you. This is true even if we have known you for 30+ years. It is not enough that we just know your situation; we must keep WRITTTEN proof on file for 3 years.

  - Acceptable documents include: your 1095-A, B or C; school report cards with your address on them; doctors statement; or your lease showing all the residents of the household.
  - If you are divorced and the non-custodial parent we will also need a completed Form *8332 – Release of Exemption for Child by Custodial Parent.*