Albert P. Lanzillotti, II CPA

HELPING OUR CLIENTS NAVIGATE THE COMPLEXITIES OF TAX

420 Lincoln Avenue, Saugus, MA 01906 781-231-2580

2017 Year-End Client Tax Letter

December 2017

IN THIS ISSUE

TAX REFORM UNCERTAINTY

If you have been following the news out of Washington you know that tax reform is a legislative priority for the Republicans. However, exactly what that reform will be, who it will benefit, and when it will be effective is still very much up in the air. As of this writing the House has passed their version of tax reform which reduces the tax brackets from 7 to 4 with 39.6% being the highest rate. The current Senate version keeps the 7 tax brackets with the highest bracket at 38.5%. The House and Senate must pass identical legislation before sending it to the President for signature, which they hope to do before the end of 2017. However, there are a number of key differences between the two proposed bills. Reconciling these differences will be the most challenging step in the process and any agreed upon reform will need to pass the Congressional Budget Office rules.

What does this mean for you? Although enactment of final tax reform legislation is not yet a sure thing, the odds have increased sufficiently over the past several weeks to make some preparations for year-end planning advisable. Now that both the House and Senate have finally weighed in, taxpayers no longer need to worry about the reach of tax reform back into 2017, for the most part. Most provisions are being made effective for tax years beginning January 1, 2018, with mortgage interest and expensing deductions perhaps the only potential exceptions. While each taxpayer's situation is different the general recommendation for year-end 2017 tax planning is to defer income to 2018 and accelerate itemized deductions into 2017. Accelerating itemized deductions is important not only to lower 2017 taxable income but also simply because it may be the last opportunity to take the certain deductions if tax reform passes. The chart below summarizes the current proposed legislation. Common deductions on the chopping block are various state & local tax deductions including real estate tax, mortgage interest, and medical expenses. Please call our office if you wish to discuss your specific year-end planning needs.

PROPOSED LEGISLATION COMPARISON: INDIVIDUALS

ITEM DESCRIPTION	HOUSE	SENATE (through 2025)
Standard Deduction	$24,000 - Married taxpayers $12,000 - Single taxpayers $18,000 - Head of household	$24,400 - Married taxpayers $12,200 - Single taxpayers $18,300 - Head of household
Personal Exemptions	ELIMINATES	ELIMINATES
Alternative Minimum Tax (AMT)	ELIMINATES	ELIMINATES
State & Local Tax Deduction	$10K Max on Property Tax	ELIMINATES ALL
Overall Itemized Deductions Limit	ELIMINATES	ELIMINATES
Misc 2% Itemized Deductions	PRESERVES MOST	ELIMINATES ALL
Mortgage Interest Deduction	$500K Debt Limit (1 Home) & Repeal Home Equity Interest	Repeal Home Equity Interest
Medical Expenses	ELIMINATES	PRESERVES 10% AGI
Cash Charitable Contributions	AGI Limit increased to 60%	AGI Limit increased to 60%
Child Tax Credit	$1,600 per Child	$2,000 per Child
Estate Tax/GST	Exemption Doubled, Repeal in 2024	Exemption Doubled, No Repeal
Capital Gain Rates & Thresholds	NO CHANGE - 0%, 14% & 20%	NO CHANGE - 0%, 14% & 20%
529 Plans	Allow $10k/yr. for K-12 and Allow Unborn as Beneficiary	Allow Unborn as Beneficiary
Education Credits	Combines AOC & LLC into one credit - 100% for first $2,000 of qual. expense, 25% on next $2,000; Eliminates student loan interest deduction	PRESERVES ALL
Retirement Plans	Eliminates catch-up contributions for those age 50 & older with compensation of $500k or more	Eliminates conversion of Traditional IRA to ROTH IRA and recharacterization of ROTH IRAs to traditional IRAs
Alimony	Alimony payments would no longer be deductible by the payor or includible in payee's income - effective for any divorce executed after 2017.	NO CHANGE

THE SHARING (GIG) ECONOMY

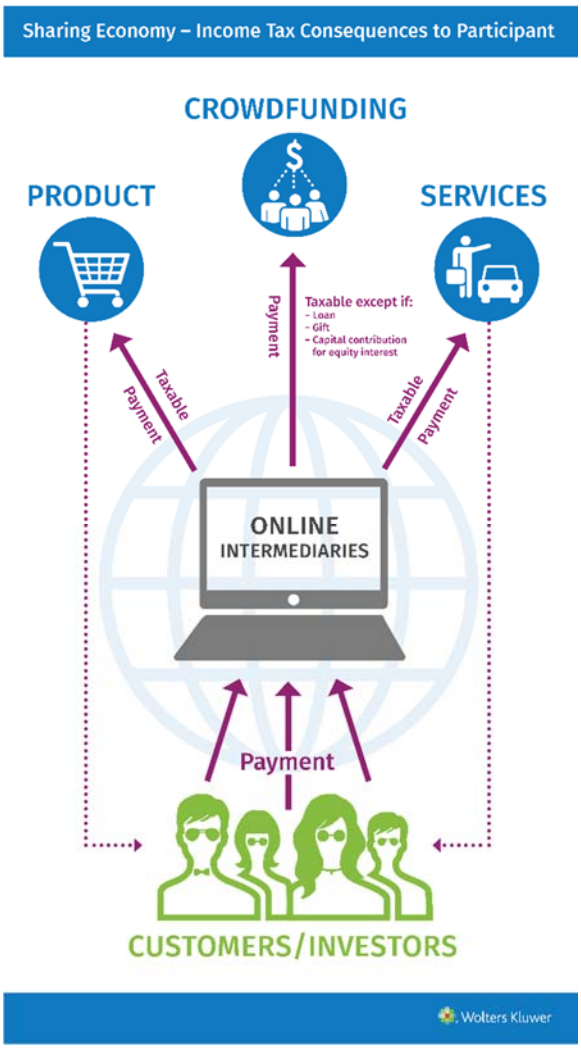
The sharing economy, also referred to as the gig, on-demand, access, or side hustle economy, allows individuals and groups to use technology advancements to arrange transactions that generate revenue from their assets, such as cars and homes, or from services they provide, such as household chores, delivery, or technology services. The internet is generally used to connect suppliers to consumers.

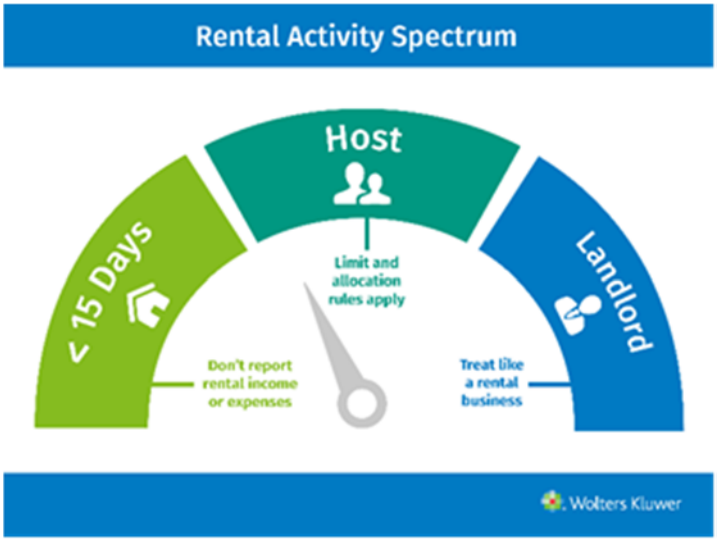
Examples of businesses involved in the sharing economy include: ***Uber, Lyft, Etsy, Task Rabbit, Airbnb, Ebay, Instacart***, to name a few. More and more people are participating in such activities and should be aware of the tax implications. For example, income received is generally taxable, even if the recipient does not receive a Form 1099, W-2, or some other income statement.

What's also important to note is that an individual working in the sharing (gig) economy is most often treated as a self-employed ***independent contractor*** for federal tax purposes. An individual who is considered self-employed may need to make quarterly estimated tax payments and may be subject to self-employment (SE) tax. SE tax covers payments for Social Security and Medicare and is similar to the FICA tax your see withheld on your W-2 as an employee. The individual who earns $400 or more of self-employment income in a year MUST pay a 15.3% self-employment tax in addition to income tax. So if you are in the 15% income tax bracket you will pay 30.3% (15.3% + 15%) on the income you received from your gig job. The good news is that you can deduct ordinary and necessary expenses such as mileage, tolls, cell phone, internet fees or miscellaneous supplies, however, meticulous record keeping is key.

The gig economy also includes ***crowdfunding*** which is a process by which an individual or entity raises funds, typically seeking small individual contributions from a large number of people, through an electronic fund raising platform. There are a number of websites, such as GoFundMe and Kickstarter that facilitate crowdfunding. The income tax consequences to a taxpayer of a crowdfunding effort depend on all the facts and circumstances surrounding that effort. If you are involved in such a transaction please contact our office to discuss.

Equally complex are the tax rules for renting your home or part of your home through the gig economy…





TAX ISSUES - RENTING YOUR HOME ON AIRBNB

Airbnb, HomeAway, VRBO and other on-line home share services allow you to rent out a room or home and earn rental income. The tax code that governs the treatment of rental income is a complicated tangle of definitions and resulting consequences depending on the number of days you rent. Please contact our office to discuss your particular situation however, a very simplistic overview is as follows:

If you rent ***less than 15 days*** you do NOT have to report the income or expenses. However, you will receive a 1099-MISC from the on-line share service so you must be ready to explain to the IRS why it was not reported.

If you rent 15 days or more you must report the income but can also deduct your expenses related to the rental period. If you also use the property personally you are considered a ***Host*** and must allocate these expenses between the rental and personal use period. Personal use is defined as one day or more of use. If you do not use the property personally you are a ***landlord*** and all expenses may be deducted.

In addition to income tax obligations, some states and localities also impose an ***occupancy tax*** on short-term rentals. As of this writing Massachusetts does NOT. However, lawmakers are considering a 5 percent excise tax on overnight stays of 31 days or less. Cities and towns would be allowed to charge additional tax up to 6 percent. Be on the lookout for this to pass in the near future.

THE TAXPAYER ADVOCATE SERVICE (TAS)

The old line of "I'm from the government and I'm here to help" draws laughter from audiences. However, in this case, the saying is really true. The IRS' Taxpayer Advocate is from the government and really does help taxpayers.

TAS was established as an independent organization to ensure you are treated fairly, and know and understand your rights. You may be eligible for TAS's free services if you've tried to resolve your tax problem through normal IRS channels and have gotten nowhere, or if you are facing an immediate and significant hardship if relief isn't granted.

A significant hardship includes any of the following:

1. There is an immediate threat of adverse action.
2. There has been a delay of more than 30 days in resolving the taxpayer's account problems.
3. The taxpayer will have to pay significant costs if relief is not granted.
4. The taxpayer will suffer irreparable injury, or a long-term adverse impact, if relief is not granted.

The significant hardship need not be financial. Any loss, or potential loss, of life's necessities, a job, or educational opportunity; a negative impact on the taxpayer's credit; or substantial physical or emotional distress are factors that weigh heavily in favor of determining that there is a significant hardship.

To understand your rights or find a local office visit TAS at **www.taxpayeradvocate.irs.gov** or call 877-777-4478. Most states also have their own version of TAS. The Massachusetts advocate can be reached at 617-626-2280 or **taxadvocate@dor.state.ma.us**

How can TAS Help…

Example 1:
Peter was informed by his bank that the IRS issued an Intent to Levy Notice for his account. Peter never received a notice from the IRS indicating that he owed money. Peter qualifies for taxpayer advocate help.

Example 2:
A revenue officer (tax collector) showed up at Betty's job. He asked questions about her tax debt in front of her boss and customers. Her complaint to the collector's supervisor went unanswered. Betty is afraid more visits may cause her to lose her job. Betty can call the Taxpayer Advocate Service.

Example 3:
The IRS recorded a tax lien against Sam. Sam paid off the debt, but two months later the IRS still hadn't filed a Satisfaction of Lien. Sam is trying to buy a car, but the dealer won't arrange financing because of the lien in his credit file. Sam needs immediate help and can call the Taxpayer Advocate Service.

QUALIFIED CHARITABLE IRA DISTRIBUTIONS

Use your IRA RMD to make a
Charitable Donation ***and lower your tax bill***

Taxpayers 70 1/2 years old who own an IRA are required to take minimum distributions from that account each year and include those amounts in taxable income. If you are in this category, a special rule allows you to make a charitable contribution directly from your IRA to a charity. This has several benefits.

First, since charitable contributions deductions are usually only available to individuals who itemize, individuals who take the standard deduction instead can also benefit from this rule. Second, making the contribution directly to a charity counts towards your required minimum distribution but that amount up to $100,000 per taxpayer is excluded from gross income. This reduces taxable income as well as your adjusted gross income (AGI). A lower AGI is advantageous because it increases your ability to take deductions that you might not otherwise be able to take. For example, medical expenses are only deductible to the extent those expenses exceed 10 percent of your AGI, miscellaneous itemized deductions are limited to the excess of 2 percent of AGI, personal exemptions are phased out once AGI exceeds a certain threshold, and, as AGI increases, more of your social security benefit is subject to tax.

Also, in states like Massachusetts where there is no charitable deduction, the use of a qualified charitable distribution essentially gives the taxpayers an above the line deduction by reducing the otherwise taxable income.

IDENTITY THEFT AND THE EQUIFAX BREACH

Equifax has a contract with the IRS to "verify taxpayer identity" and "assist in ongoing identity verification". Richard Smith, Equifax's former CEO, testified before a congressional panel that the "major cyberattack on Equifax" provided thieves access to not just individuals' names and Social Security numbers, but also birth dates, addresses and, in some instances, driver's license numbers. Those are all things needed to file federal and many states' tax returns. So just how worried should we be that data stolen from Equifax will find its way into false tax returns filed by crooks?

The IRS has taken a number of steps to ensure that potential crooks will fail. New processes and 37 data filters created by cyber specialists have been designed to catch falsified information and stop the processing of the return. One such filter is a 16-digit verification code that, for the first time, will be part of ALL W-2 forms issued for the 2017 tax year.

The IRS reportedly stopped 443,000 fraudulent tax returns filed in 2017, a 30% drop from the prior year. For 2016 the IRS reported a 37% drop from 2015. While this is great news, we all know cyber criminals are adaptive and will continue to employ tactics to find vulnerabilities in the system.

So we all need to be vigilant and continue to monitor our financial accounts and credit reports.

OFFICE APPOINTMENTS

Do I need an office appointment?

We take pride in intimately knowing our client's individual tax needs. If you are a current client and your tax situation has not changed from previous year you do NOT need an appointment. You may instead drop off your paperwork at your convenience. Any questions that may arise can be discussed over the phone. This not only saves you time but allows us more time for the fundamental task of preparing your tax return accurately and in a timely manner.

Client worksheets and organizers can be found on our website at www.APL2CPA.com to help you organize your documents.

If you would like to drop off documents after hours we have a secure mailbox by the front door. Only packages of about 1-1$^{1/2}$ inches in thickness will fit in the slot.

Who should schedule an appointment?

Most simply if you have experienced a major life change (divorce, job move, death, etc.) or have a complex tax situation you should call the office for an appointment at 781-231-2580.

GOING HIGH TECH

Use our secure client portal to send and receive tax documents

You can now "drop off" you tax documents electronically using our secure ShareFile client portal which is available to you on our website at www.APL2CPA.com/portal/. Conversely, and equally important, is it allows us to also "deliver" your completed tax return to you electronically.

A number of our clients have utilized this option with positive feedback. If you are interested please send an email requesting an account activation to albertL@APL2CPA.com. If you would like to learn more visit our website and click on the tab "Client Portal" for a complete ShareFile user guide.

Feeling tech savvy and want more? … inquire about signing your completed tax return electronically.

YOUR 2017 TAX RETURN – IMPORTANT MATTERS & REMINDERS

GATHER ALL YOUR TAX DOCUMENTS

DROP OFF YOUR TAX DOCUMENTS BY: March 23, 2018
Any client paperwork received after **this date** will result in your tax return being put on extension.
The fee to prepare an extension is $85.00.

W-2's (wages), W-2G (gambling winnings) and 1099's for interest, dividends, pensions, annuities, social security and unemployment; K-1's for partnerships, S-corps, estates and trusts; self-employment or rental income; 1098-Mortgage Interest; real estate tax bills; motor vehicle, boat, RV or trailer excise tax bills.

For a more comprehensive list please visit our website at www.APL2CPA.com and click on the "Client Worksheets & Organizers" tab.

❖ TAX DOCUMENTS NEEDED FOR TAXPAYERS WITH CHILDREN

PROOF OF RESIDENCY – We need proof your child lived with you EVERY year IF you are claiming Earned Income Credit (EIC), Child Tax Credit (CTC) or American Opportunity Education Credit (AOC**).** Yes, this seems excessive but there is a $510 penalty per credit ($1,530 per tax return) assessed to the tax preparer for NOT documenting eligibility for the above credits. Acceptable documents include: your 1095-A, B or C; 1099-HC; school report cards; doctor statements; or your lease showing all the residents of the household.

CHILDREN IN DAYCARE - If you have dependents in daycare, provide the amount paid and provider name, address and social security number or tax identification number.

CHILDREN IN COLLEGE - In addition, if you had a child in college we **MUST** have a copy of form ***1098-T, Tuition Statement*** AND a copy of the **BURSAR BILL** to claim the education credit. The tax code requires it.

❖ REFUND DELAYS CAN BE EXPECTED AGAIN THIS YEAR

The IRS will NOT issue any tax refunds before February 27, 2018 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 returns. The extra time will allow them to match W-2 information with wages reported to social security.

❖ HEALTH INSURANCE AND NON-COVERAGE PENALTIES

Despite numerous attempts by Congress to repeal Obamacare, the law is still with us and so is the penalty for not having health insurance coverage. The penalty is 2.5 percent of your 2017 household income exceeding the filing threshold or $695 per adult, whichever is higher, and $347.50 per uninsured dependent under 18, up to $2,085 total per family.

If you purchased insurance through the government market place **we MUST have your form 1095-A** to complete your return. 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.

****FAILURE TO PROVIDE THESE REQUIRED DOCUMENTS WILL DELAY THE PROCESSING OF YOUR TAX RETURN****