The Accountant's Office

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2016 TAX LETTER

Hopefully you have survived another election year! I am SO glad the campaigning is over! My letter this year isn't full of new rules and laws because not a lot of important things happened in this election year.

The newest income focus for the IRS is now PENALTIES and preparers who neglect their Due Diligence will pay dearly. Taxpayers will also be subject to new penalties but the IRS seems to believe that tax professionals should be the IRS' Gestapo! The rationale is that a tax professional has had appropriate training, has been issued a PTIN (Preparer Tax Identification Number) which is used on any return prepared by them (traceable!), and are governed by Circular 230 (rules for practice before the IRS). So please do NOT be offended if we get more nosey than usual in our attempt to compile the information needed to prepare your 2016 tax return. Our Due Diligence protects us as well as you.

We will again be requiring an Engagement Letter be signed by you. Our Health Insurance Addendum must also be signed and the appropriate health insurance coverage information provided.

Your 2016 tax appointment information is listed on the back of this organizer. ***The Taxpayer Information, Address & Status, and Dependents sections are important to us so we ask that you complete at least that much of the organizer.*** *If your tax situation is similar to prior years, please feel free to drop off your taxes rather than wait for an appointment as we have a couple of people available to do some data entry, but you will still be asked to sign the Engagement Letter, Health Insurance Addendum, and provide some basic information. As always, if a sheduled appointment needs to be changed or cancelled,* ***please*** *call us as our time is so very valuable during the next 3 months. We again have low cost bank products to assist with your payment needs.*

New (Old) Tax Laws

The Trade Preferences Extension Act of 2015 included, as a revenue raiser, higher penalties for erroneous or unfiled information returns (Form W-2, 1099 MISC for rent and sub contractors). The due date to the recipient has always been January 31 following the year the payments were made, but NOW the IRS must also be provided these forms by January 31, 2017. And the penalties now apply to the copy for the recipient AND the copy to the IRS. "Intentional Disregard" of the filing requirements is $500 per form or $1,000 per recipient. If you have any persons you pay for services or you pay rent to in your trade or business, you MUST get these forms filed by January 31, 2017 or expect to pay the penalty. Going forward, do not pay anyone who isn't an employee or corporate entity until you have a Form W-9 from the recipient in your possession!

The Protecting Americans from Tax Hikes (PATH) Act of 2015 was signed into law on December 18, 2015. I discussed this Extender Bill in last year's newsletter. The new law also adds in other miscellaneous provisions to combat erroneous education credit, child tax credit and earned income tax credit claims. (AKA Due Diligence!)

Due Diligence & Refundable Credits. Earned Income Tax Credit (**EITC**), Additional Child Tax Credit (**ACTC**), and American Opportunities Tax Credit (**AOTC**) are credits that can result in refunds to a taxpayer even if no tax has been withheld. Consequently, these credits have been abused. We will be asking many more questions this year in order to determine a taxpayer's eligibility for a credit. Our failure to perform Due Diligence will result in over $500 fines per incident and, unless you want that fine on your tax bill (!), please understand that we are asking specific, pertinent, and sometimes personal questions for very good reasons!

Affordable Care Act (ACA). Since 2013, all taxpayers have been required to have qualifying health insurance, qualify for an exemption, or pay a penalty (individual shared responsibility payment). As part of our Due Diligence, we are required to assess this penalty on any tax return that we can't verify health insurance coverage. This year's penalty is the greater of $695 per adult and $347.50 per child or 2.5% of household income over the tax return filing threshold. The Market Place will provide Form 1095-A. Form 1095-B generally comes from insurance providers of companies with less than 50 full time employees and Form 1095-C comes from companies with more than 50 full time employees. These information returns are due to you by January 31, but more whining from the private industry has given them until March 2, 2017. An employer may provide a statement for its employees stating who is covered and the number of months of coverage to satisfy OUR Due Diligence.

Form 1098-T requirements. Higher education institutions must provide a return (Form 1098-T Tuition Statement) to the IRS and a statement to the student, that indicate, among other things, the amount paid by or billed to the student for qualified tuition and related expenses for the tax year.

Previously, institutions generally reported the amount they billed the student and not the amount they actually received during the calendar year. Consequently, the tuition credit (**AOTC**) was often overstated. The PATH Act mandates that higher education institutions report amounts paid to them. However, they whined to the IRS (why doesn't this work for taxpayers???) about not being able to get their programming ready for 2016 Forms 1098-T (yes, this act was passed June 29, 2015!) so amounts paid will probably NOT be reported. As part of our Due Diligence, we must report the amount that was paid to the institution in 2016. **Please,** ask your student to get a copy of all charges and payments for 2016 from the office of the Bursar, Treasurer, Business, Cashier or whatever they are called at your student's school! We will need this before we can determine your eligibility for the tuition credit.

Section 529 plans. The PATH Act provides that "qualified higher education expenses" now include expenses for the purchase of computer or peripheral equipment, computer software, or Internet access and related services, if the equipment, software, or services are to be used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible educational institution. NOTE: be sure to match your Section 529 withdrawals with your tuition expenses **in the same year**. If distributions exceed qualified higher education expenses, you will be subject to tax on some of the earnings.

IRS to delay some refunds. The PATH Act also mandates that the IRS hold refunds from any return containing Earned Income Tax Credit (**EITC**) and/or the Additional Child Tax Credit (**ACTC**), both refundable credits, until **February 15, 2017**, regardless of when that return is filed. This allows additional time to help them prevent revenue lost due to identity theft and refund fraud related to fabricated wages and withholdings. Additionally, the entire refund will be held as the IRS cannot release the part of the refund that is not from those credits. The IRS still expects to issue refunds in less than 21 days for returns without these refundable credits or after February 15.

Additional Information

Standard mileage rate. The following rates are applicable for the 2016 and 2017 tax years:

	2016	2017
Business	$.540	$.535
Medical	.19	.17
Moving	.19	.17
Charitable	.14	.14

Direct IRA transfers to charities. The PATH Act makes permanent the ability of individuals at least age 70½ to transfer up to $100,000 per year from an IRA to a qualified charitable organization and exclude the distribution from income yet still satisfy the Required Minimum Distribution for the year.

Charitable Contributions. Since August 17, 2006, you must have a bank record or written communication from the donee as a record of the contribution. Bank records must show the date paid, the name of the charity, and the amount of the payment. Payroll deductions can be substantiated by a pay stub or W-2 and a pledge card. For a donation of $250 or more (total for the year), you must also have a contemporaneous written acknowledgment from the charity describing the property (i.e., cash, record collection, books, etc). This acknowledgment must also identify the value of any goods or services provided to you. For donations over $5,000, a qualified appraisal must be obtained. Noncash donations (household and clothing items) must be in at least good used condition. (Do you remember when Bill Clinton took a substantial deduction for his used underwear?!!) Any single item valued at over $500 requires a qualified appraisal of that item. Again, our Due Diligence requires that we verify your donation records.

PRIVACY POLICY

We do not disclose any non-public personal information about our clients or former clients to anyone, except as instructed to do so by such clients, or required by law. We restrict access to non-public personal information and we maintain physical, electronic, and procedural safeguards to guard your personal non-public information.