TAX NEWS

SPRING 2017

Dear Client:

The Trump administration has issued its first draft of the budget proposal which contains several provisions to revise the federal income tax code as well as changes for the tax professional. While there is a great deal of media coverage on the various changes to both the tax code and the Affordable Care Act (aka Obamacare) there has been no approved legislation for any changes. We will keep you apprised of any changes that are approved by Congress and signed by the President which may affect your tax position.

Now is the time to start thinking about your mid-year tax checkup to keep an eye on the assumptions that were made earlier this year during the preparation of your 2016 income tax return. If there have been changes in your personal situation which would include births, deaths, marriages, divorces, salary increases or loss of a job now is the time to contact us to prepare a projection of your 2017 federal (and state) income tax liability.

For those of you who own a business or are self-employed – particularly if you started the business in 2017 – contact us for a business checkup to make sure you are making the best decisions for both your business and how they affect your tax liabilities, perform a QuickBooks review or financial statement preparation, and other business related services.

We are here to help you with any issues or life situations that may affect your tax situation. Contact us at any time to provide assistance or consultation. If you wait until it is time to prepare your tax returns it may be too late to propose any action that may help alleviate the situation.

We wish you a joyous and safe summer. If your vacations take you to foreign lands we wish you safe journeys and lots of adventures.

Business Travel Requirements

The IRS imposes stringent record keeping requirements on taxpayers who deduct expenses relating to business travel and entertainment (T&E), including meals, and electronic devices like cellphones. This includes employees who use personal assets to accommodate their employer and are paid on a non-accountable plan. If you do not have the required proof, your deductions may be denied completely.

A non-accountable plan is defined as a fixed payment you receive from your employer to cover the use of your cell phone, auto, home expenses, etc. The payment you receive is included on your Form W-2 in your annual income subject to income taxes as well as Social Security and Medicare taxes. The expenses you incur are deducted on Form 2016 which is then reported on the Schedule A of your individual income tax return. Unfortunately, you may not get the full benefit of the expenses you incur due to the limitations imposed on unreimbursed employee expenses.

An accountable plan, however, is one where you submit an expense report to your employer and are directly reimbursed by your employer for the out of pocket expenses incurred. In this case the expense reimbursement is not reported as wages on your Form W-2.

Generally, the IRS requires taxpayers to record the following elements of every T&E and meal expense.

- The amount of expense;
- The time and place of the expense;
- The business purpose of the expense; and
- The business relationship to the taxpayer of the individuals being entertained.

In addition, the taxpayer must also keep evidence, such as a receipt, for any T&E and meal expense that is $75 or greater.

For cellphones, you can only deduct costs which are related to your business, so you must establish the percentage of business use. Documentation may include a log or other ledger indicating when calls were made for business and personal reasons and the purpose for such business calls. Under the Cohan rule (named for a case involving the famed Broadway showman George M. Cohan), the IRS may allow you to deduct a portion of your expenses without documentation if you can provide credible evidence of expenses.

Note that taxpayers have more leeway for employer-provided cellphones treated as fringe benefit. If an employer provides an employee with a cell phone primarily for non-compensatory business reasons, the business and personal use of the cell phone is generally nontaxable to the employee. The IRS does not require record keeping of business use to receive this tax-free treatment.

A similar approach applies to arrangements common to small businesses that provide cash allowances and reimbursements for work-related use of personally-owned cell phones.

Deductible travel expenses while away from home include, but are not limited to, the costs of:

1. Travel by airplane, train, bus or car between your home and your business destination. (If you're provided with a ticket or you're riding free because of a frequent traveler or similar program, your cost is zero.)

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Do you have a rental property?

If you rent out a residence such as a summer vacation home when you are not using it, you may be entitled to deduct expenses against the rental income. In fact, you can even claim an annual loss as long as you do not exceed certain limits. But the number of "rental days" of use versus "personal days" is critical.

Significantly, a day spent repairing the place or making improvements do not count as a personal day if you have the records to back up your claims.

First, let's quickly review the key tax rules for rentals of vacation homes and comparable properties. Although the income realized from a vacation home rental is generally taxable, you can offset the tax liability with deductions for rental expenses, including mortgage interest, property taxes, insurance, repairs, utilities, and depreciation. This can significantly reduce the tax you might owe from the summer rental season.

However, you cannot claim a tax loss if your personal use exceeds the greater of 14 days or 10 percent of the number of days the home is rented out. In other words, you must allocate the time spent at the home between rental days and personal days. For instance, if you take a family vacation at the home the last three weeks of the summer, you will run afoul of the personal use limits, regardless of the number of days the place is rented out.

But you can stay within the limits with a relatively small scheduling change. Therefore, if you spend the last week of the summer "winterizing" the home for next year, only the first two weeks of the vacation count as personal days. Alternatively, you might take one week in May to prepare the home for summer rentals and spend just two weeks on vacation in September. Of course, you must also satisfy the 10 percent part of the test to qualify for a deductible loss.

If the property is converted to full time use as a rental property then the full amount of any expenses related to the cost of the property can be applied against the income. This includes mortgage interest, real estate taxes, insurance, HOA fees, utilities, repairs and maintenance and some travel costs associated with the maintenance of the property.

For example: A taxpayer owned real estate property in Indiana, setting up an LLC to hold title to the property. The LLC converted the home into a bed-and-breakfast that ultimately was unsuccessful. Rental losses were claimed through the LLC, which were then passed through to the taxpayer.

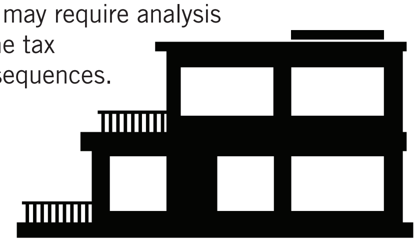
Over several years, the taxpayer offered the property for resale. Although he received several inquiries about rentals, he declined to do so because of concerns about liability and his opinion that the rental income would not justify the expenses. Caretakers were hired to live on the property and do any necessary maintenance work.

The taxpayer took several trips to the Indiana property for at least part of each of 26 days and spent numerous hours on "business activities" during the trips to the Indiana property. To prove his point, the taxpayer relied on daily logbooks created during the IRS' examination. Based on the logbooks, the taxpayer contended that he "engaged substantially full time in maintenance and repair activities during every day" spent at the property. He also argued that the days spent traveling from and back should not count as personal days at the Indiana property because the principal purpose of each trip was to perform repairs and maintenance.

However, the Tax Court disagreed with the taxpayer. Based on his testimony and logbooks, there was no evidence of disrepair to the property, nor were there any specific details on what was done to improve it. In addition, the Court noted that caretakers lived at the property and were supposed to perform maintenance duties. The taxpayer also testified he reconstructed the logbooks from his accounting records. Accordingly, the Tax Court determined that the days claimed as business days were personal days and disallowed the losses.

Make sure that any claims for business days spent on repairs and maintenance are documented and can be supported by evidence, including receipts of related expenses.

Contact us if there are any changes associated with your rental property including the conversion of personal property to business property, the sale of your property and any extensive improvements or repairs that are planned. There have been some extensive changes to the tax code as it relates to both residential and commercial properties that may require analysis of the tax consequences.



BUSINESS TRAVEL REQUIREMENTS *continued from page 1*

2. Fares for taxis or other types of transportation between the airport or train station and your hotel, the hotel and the work location, and from one customer to another, or from one place of business to another.
3. Shipping of baggage, and sample or display material between your regular and temporary work locations.
4. Using your car while at your business destination. You can deduct actual expenses or the standard mileage rate, as well as business-related tolls and parking fees. If you rent a car, you can deduct only the business-use portion for the expenses.
5. Meals and lodging.
6. Dry cleaning and laundry.
7. Business calls while on your business trip. (This includes business communications by fax machine or other communication devices.)
8. Tips you pay for services related to any of these expenses.
9. Other similar ordinary and necessary expenses related to your business travel. (These expenses might include transportation to and from a business meal, public stenographer's fees, computer rental fees, and operating and maintaining a house trailer.)

Be aware of the regulations and the stringent rules in this area. Contact us if you have any questions regarding your business practices and whether your records would suffice in the event of an audit by the IRS. While we cannot promise to make you audit proof we can help you organize your recordkeeping so that all the records necessary would be available in the event of an audit.

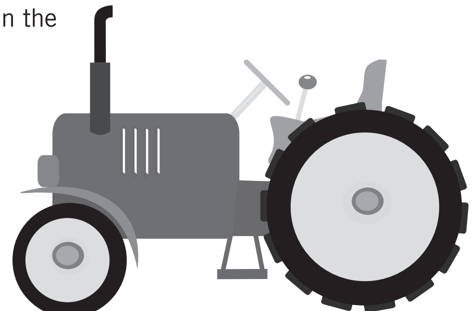
Tax Benefits for Farmers

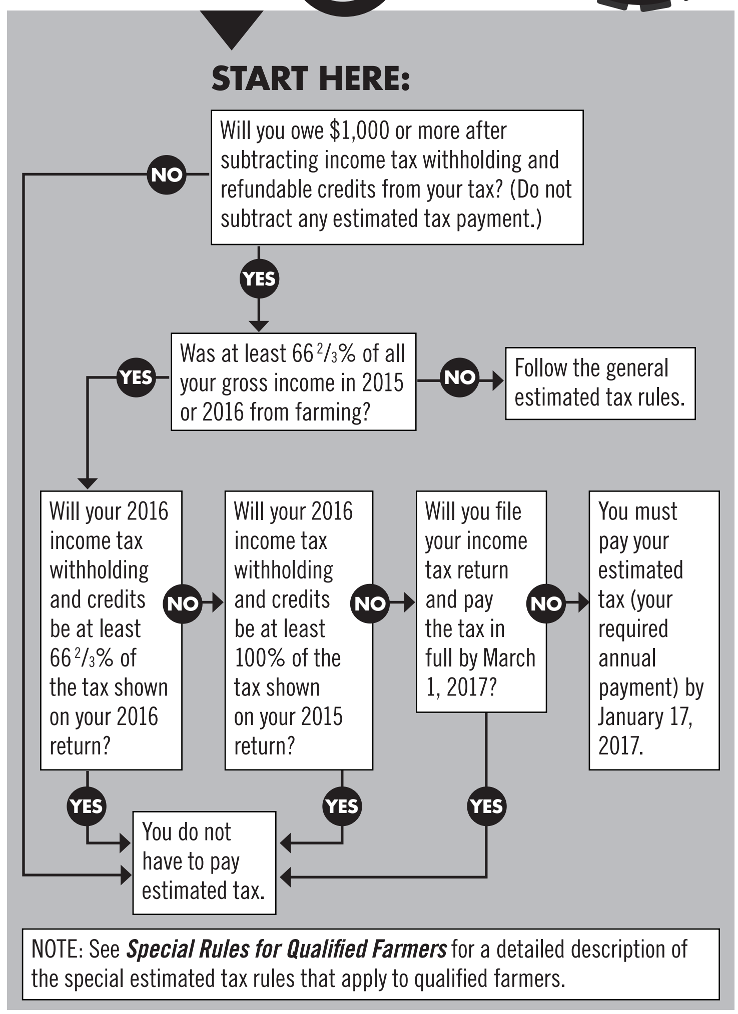
Farming has often been viewed as the backbone of the American economy. While technology and other recent developments may have changed this thinking, farmers still enjoy a preferred status, at least as federal income taxes are concerned. For instance, there are several special tax code provisions relating to farming, most of them beneficial. At the same time, taxpayers in the agriculture field may be in line for the same tax breaks available to businesses in general.

What sort of tax provisions are we talking about? Here are ten items that may be of interest.

1. **Depreciation deductions:** Like other businesses, farmers can take advantage of enhanced write-offs for property placed in service in 2017. Specifically, a farmer may claim a maximum expensing deduction of $510,000 under Section 179, subject to a phase-out for acquisitions above $2,030,000, plus 50% "bonus" depreciation on qualified property.
2. **Crop insurance proceeds:** Crop insurance may be purchased by farmers to protect against losses caused by natural disasters --such as hail, drought and floods -- or lost revenue due to declines in prices of agricultural commodities. However, the proceeds generally have to be reported as income in the year they are received.
3. **Sales due to weather:** On a related note, if a farmer sells more livestock and poultry than would normally occur in a year because of weather-related conditions, the business gets a reprieve: It can postpone reporting the gain from sales of the additional animals due to the weather until the next year.
4. **Farm income averaging:** Regular income averaging has been gone for many years, but farmers may still average all or some of the current year's farm income by allocating it to the three prior years. This may lower tax for the current year tax if current income from farming is high and taxable income from one or more of the three prior years was low.
5. **Deductible farm expenses:** As with other businesses, farmers may write off ordinary and necessary costs of operating a farm for profit. An "ordinary" expense is one that is common and accepted in the farming business, while a "necessary" expense must be appropriate for the business.
6. **Employees and hired help:** Similarly, a farmer can deduct reasonable wages paid for labor hired to perform farming operations. This includes both full-time and part-time workers. Of course, the business is responsible for withholding income and payroll taxes for its employees.
7. **Items purchased for resale:** Not all farm products are home-grown. Farmers may to deduct the cost of items purchased for resale in the year the sale occurs. This includes livestock and freight charges for transporting the livestock to the farm.
8. **Net operating losses:** If the deductions claimed by a farming operation exceed its profits, it may report a net operating loss (NOL) for the year. The NOL can be carried back for two years and then forward for up to 20 years to offset income in other years. As a result, the farm business may be entitled to a refund from a prior year or benefit from a tax reduction in a future year.
9. **Loan repayments:** When a taxpayer takes out a personal loan, he or she cannot deduct interest on the subsequent loan repayments. However, if loan proceeds are used in a farming business, the taxpayer may deduct the interest paid on the loan on the farm's tax return.
10. **Fuel and road use:** Finally, farmers may be able to claim a credit or refund of federal excise taxes on fuel used on a farm for farming purposes. Other taxpayers often illegally claim this off-road credit, but it's legitimate for those in the farming industry.

Farmers also have unique requirements for estimated tax payments.





Do you want to know more about the special rules for farming activities? You can find valuable information in IRS Publication 225, Farmer's Tax Guide, at https://www.irs.gov/pub/irs-pdf/p225.pdf.

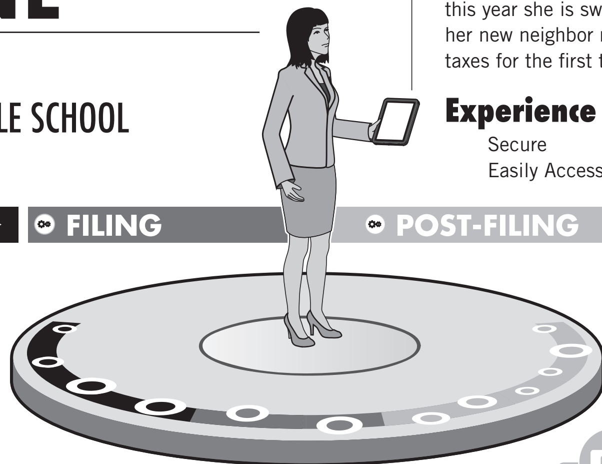
While farming is a specialized field that requires a certain level of experience and background we can help you navigate the rules specific to the farming industry. Contact us if you have any questions or want to set up a consultation.

INDIVIDUAL

Taxpayer Experience of the Future

JANE

TEACHER,
local MIDDLE SCHOOL



BACKGROUND

Jane just rejoined the work force as a middle school math teacher. Having no previous teaching experience, Jane's income is low. Jane's son turned 19 years old this tax year and lives with her part-time.

Jane has historically used a tax preparer to file her taxes, but this year she is switching to a third-party web application that her new neighbor recommended. Since Jane is filing her own taxes for the first time, she is unfamiliar with many tax laws.

Experience Expectations

Secure
Consistent
Transparent
Easily Accessible
Fast

Taxpayer Journey

PRE-FILING | **FILING** | **POST-FILING**

Jane's friend informs her that the IRS recently established secure online accounts. Jane decides to go to IRS.gov to create her online account.

Once she completes her profile, she is directed to a dashboard that provides her with personalized notifications and guidance.

She sees a notification that she should review her Earned Income Tax Credit (EITC) qualifications this year and clicks on a link to review the guidance.

Later, Jane receives a memo from her school district explaining tax deductions for school supplies based on information the district received from an IRS outreach program.

Jane uses the third-party tax software to download her previous year's tax information from the IRS and to enter current-year information. She sees that she is owed a refund.

Jane receives a digital notification from the IRS confirming the receipt of her return which is being processed.

Later, she receives a digital notification that she may not qualify for an EITC since the IRS does not have record of her son being a full time student. The notification asks her to validate and self-correct as necessary.

She speaks with her son and determines that he does not take enough credits to be considered a full time student. As a result, Jane is not eligible for the EITC.

Jane logs onto her account, clicks on the notification, updates and resubmits her return instantly. As a result, she now owes taxes.

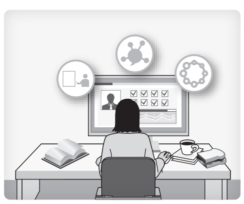
Jane chooses an IRS installment plan that she can use to pay off her balance.

Jane receives a digital notification that her return has been processed and approved.

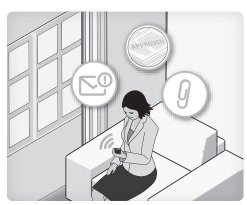
Jane monitors her payment plan throughout the tax year. She receives payment reminders through her IRS online account and is notified when her tax obligation is met.

Taxpayer EXPERIENCE

I receive clear guidance from the IRS and its partners on tax issues that directly affect me.

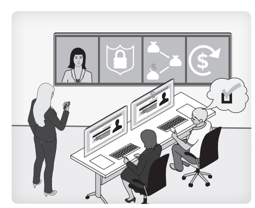


I access my tax information centrally through my secure online my account.



I receive personalized tax assistance from third parties.

I fix problems and make changes on my own or with limited support.



I am confident that digital interactions with the IRS are easy and secure.

TAXPAYER-FACING CAPABILITIES

Taxpayer Outreach & Education
Preemptive, tailored, multi-channel communications with taxpayers aimed at improving the taxpayer experience and encouraging voluntary compliance

e-Authentication
Verification of a taxpayer or third party's identity across digital channels

Digital Taxpayer Account Management
Online accounts that allow taxpayers to manage their tax compliance responsibilities

Third Party Services
External partnerships that encourage and support third parties in providing services directly to taxpayers

Taxpayer Self-Correction
Secure, online resources and tools that allow taxpayers to easily access relevant information and interact with the IRS

Digital Content Management
Digitization of information accessible by taxpayers, to include taxpayer records, forms, and documents

Privacy & Security Management
Systems, software, and governance that enable all transactions and informa - tion exchanges to be secure and protected