

# TAX TIME 2017

## What's New for Filing 2016 Taxes?

### PATH Act Extends Tax Breaks

The Protecting Americans from Tax Hikes Act of 2015 (PATH Act) opened the door to many continued deductions and credits. Incentives for individuals extended permanently, and in some cases modified, by the PATH Act include:

- American Opportunity Tax Credit
- Deduction for certain expenses of elementary and secondary school teachers
- Parity for exclusion from income for employer-provided mass transit and parking benefits
- Deduction for state and local sales taxes
- Reduced earnings threshold for additional child tax credit
- Modification of the earned income tax credit
- Tax-free distributions from individual retirement plans for charitable purposes for individuals age 70 ½ and older
- Special rule for qualified conservation contributions

For some of the incentives, the modifications are significant. For example, the deduction for qualified expenses of elementary and secondary school teachers has been modified to include professional development expenses.

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### Long-Term Gains and Dividends

The maximum capital gains rate for higher-income people is 20%. These individuals can also face the 3.8% Medicare surtax on investment income, which can result in a maximum 23.8% Federal tax rate on long-term gains and dividends.

### More Than Just Taxes

In addition to preparing tax returns, Gandrud Financial Services offers general bookkeeping, bill-paying, payroll, budgeting, debt-reduction, financial planning, QuickBooks setup, and business consulting services.

We welcome the opportunity to discuss how changes in tax laws impact you and how to minimize your tax liability.

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nine years.



### The Affordable Care Act Meets Your Tax Return

Your tax return must show whether you and your dependents were covered by minimum essential health coverage. If you purchased insurance through a Health Insurance Marketplace, you will need a Form 1095-A so that we can reconcile any advance premium credits with your actual credit which is based upon your actual income and household size. Form 1095-B or C from employers is helpful in determining for which months a taxpayer had coverage during the year. A single taxpayer earning up to \$47,080 could qualify for a premium tax credit. Taxpayers with larger household sizes could earn more and still receive the credit. Failure to maintain appropriate coverage may result in a shared responsibility payment of the higher of the total annual premium of the national average price of the bronze plan sold through the marketplace, 2.5% of your yearly "Household Income", or \$695 per adult (maximum \$2085 per family).

### Maximizing De Minimus

Certain businesses can now expense items that were previously required to be depreciated over many years. "De minimus" safe harbor rules can apply to equipment items costing \$2500 or less (but up to \$5,000 in some cases) or to rental improvements costing as much as \$10,000.

### Renter's Credit

California provides up to \$120 credit for people earning less than \$78,125 (\$60 for singles earning less than \$39,062).

### California Earned Income Credit

A credit of as much as \$2,706 is now available for wage earners with three children and income as high as \$14,161. Smaller credits are available to wage earners without children.

### Mileage Rate Decelerates

The standard business mileage rate fell to 54 cents/mile. The charitable rate stayed at 14 cents/mile. The medical and moving rates dropped to 19 cents/mile.

## Checklist of Itemized Deductions

Please scan this partial list for overlooked deductions: Medical & dental costs which, in total, exceed 10% (7.5% if over 65) of Adjusted Gross Income including:

Prescription Medicines  
Insulin  
Doctor and dentist fees  
Nursing fees  
Hospital expenses  
Dentures  
Eyeglasses  
Medical insurance premiums  
Weight loss programs  
State & local taxes (income OR sales)  
Real estate taxes  
Personal property taxes  
Estate tax on income of a decedent  
Home mortgage interest  
Points paid on the purchase of residence  
Gambling losses to the extent of winnings  
Investment interest  
Charitable contributions  
Impairment-related work expenses of a disabled person

Casualty losses  
Theft losses  
Unrecovered investment in a retirement plan or annuity  
Tax return preparation fees  
Work clothes not suitable for normal wear  
Uniforms  
Dues to work-related professional societies  
Union dues  
Appraisal fees for casualty losses  
Appraisal fees for charitable contributions  
Employment-related education  
Subscriptions to professional magazines  
Investment advice and management fees  
IRA or Keogh fees paid out of pocket  
Cost of looking for a new job  
Legal fees related to employment  
Employee's malpractice insurance premiums  
Medical exams required by employer  
Tools and supplies used in employee's work  
Hobby expenses to the extent of hobby income  
Taxes paid for property held as investment  
Convenience fees for paying income taxes

## Looking Ahead

Mileage rates in 2017 will decrease to 53.5 cents/mile for business and drop to 17 cents/mile for medical or moving. Charitable mileage will remain at 14 cents.

To be deductible, medical & dental costs will need to exceed, in total, over 10% of Adjusted Gross Income even for taxpayers over age 65.

Potential impacts from President Trump's proposed tax law changes are unknown as of 1/27/17 but we encourage you to check with us, for planning purposes, later in the year after any new legislation is signed into law.

## PATH Act Impacts

*(continued from page one)*

The PATH Act made permanent, and in some cases modified, many popular tax incentives for businesses, including:

Research tax credit  
Enhanced expensing under Code Sec. 179  
Charitable deduction for contributions of food inventory  
Tax treatment of certain payments to controlling exempt organizations  
Extension of basis adjustment to stock of S corporations making charitable contributions of property  
Employer wage credit for employees who are active duty members of the uniformed services  
Extension of 15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements  
Treatment of certain dividends of regulated investment companies  
Exclusion of 100 percent of gain on certain small business stock  
Reduction in S corporation recognition period for built-in gains tax  
Subpart F exception for active financing income  
Temporary minimum low-income housing tax credit rate for non-federally subsidized buildings  
Military housing allowance exclusion for determining whether a tenant in certain counties is low-income  
Extension of RIC qualified investment entity treatment under FIRPTA

As with the individual incentives, some of the modifications to the business incentives are significant. The research tax credit is not only made permanent, it is enhanced for small businesses. Expensing under Code Sec. 179 is made permanent at generous dollar and investment limitations. Previous limitations for the employer credit for activated reservists are relaxed. The PATH Act did not leave out the rest of the traditional extenders. However, lawmakers did not make these remaining tax breaks permanent. Extended for several years (in some cases through 2019, in other cases through 2016) are:

Bonus depreciation, the Work Opportunity Tax Credit (WOTC), the higher education tuition and fees deduction, energy incentives, the Indian employment credit, special expensing rules for television and film productions, and more.

**Our fax number is 805-684-0411**

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