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NEWSLETTER

WINTER 2016

Inside

Year End Tax Planning Tips 2016

With most of 2016 behind us, you may want to consider some year-end tax-saving ideas. Before acting on these, note the following:

- Most strategies do not apply universally, but only in specific circumstances.
- Many strategies should take into account not just the current year's impact, but future years' projected impacts as well.
- Strategies that reduce your current year regular federal income tax may not reduce your overall federal income tax due to the alternative minimum tax.

Section 179 and bonus depreciation — Businesses should consider these tax breaks related to fixed asset acquisitions:

- *Section 179 depreciation deduction.* In 2016, individuals and business entities can elect to deduct up to $500,000 of qualifying business property cost in the year the property is placed-in-service. The deduction is reduced dollar-for-dollar for qualifying property cost greater than $2,000,000. Note that this deduction is available only to the extent of positive business taxable income.
- *Special "bonus depreciation" allowance.* For 2016, an additional depreciation deduction is permitted for qualifying property in the year it is placed in service. This bonus depreciation is a deduction of 50% of the qualifying property's cost.

Capital gains and losses — If you have realized net capital gains during 2016, consider realizing capital losses before the end of the year to offset the gains. Remember that net long-term losses can be used to offset net short-term capital gains which otherwise would be taxed at ordinary rates. Also, be aware of the "wash sale" rules if you are inclined to reinvest in a security you sell at a loss.

Self-employed retirement plans — If you have self-employment income and don't have a retirement plan in place to shelter any of it, you may qualify to use a Self-Employed Plan (SEP). A SEP contribution deduction is allowed for 2016, even if the SEP is created and funded at any time up to the due date, including extensions, of the 2016 income tax return in 2017.

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TAX QUOTE

"The income tax has spawned an intrusive bureaucracy, creating so much complexity and red tape that millions of ordinary citizens have to go get some accountant to fill out the forms for them – and then sign under penalty of perjury that it was done right. If you knew how to do it right, you wouldn't have to go to somebody else to have it done, would you?"

– Thomas Sowell

(from a compilation by Jeffrey L. Yablon, a tax attorney with Pillsbury Winthrop Shaw Pittman LLP in Washington)

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Year End Tax Planning Tips 2016, continued

Charitable contributions — Consider funding charitable gifts with appreciated marketable securities held for more than one year, resulting in gains being untaxed and deductions being allowable at the securities' market values. You may also charge charitable contributions on your credit card; contributions posted to your account before year-end are deductible this year, even if you do not pay the charges until next year.

Annual gifting — You may give your children and others up to $14,000 each in 2016 without any gift tax consequences. This annual exclusion is calculated on a per donee basis and no carryover is allowed for the unused exclusion. Consider making year-end gifts to fully utilize this year's annual exclusion, and consider making your 2017 annual exclusion gifts (also at $14,000 per donee) early next year.

Required minimum distributions — Individuals with retirement plan accounts (employer qualified plans or IRAs) generally are required to take minimum annual distributions upon reaching age 70 ½. Steep penalties apply to noncompliance, and not all IRA custodians or plan sponsors actively communicate the applicability of the rules to account holders and plan participants.

S Corporation and partnership losses — If your S Corporation will generate a tax loss this year, consider whether you have enough basis in the stock (or in loans you've made to the corporation) to take the full loss. If you don't, additional investments should be considered. Similar considerations can arise in some situations with partnerships expecting tax losses.

Possible elimination or reduction of valuation discounts for family-owned businesses — As reported in an earlier newsletter, the U.S. Treasury has proposed regulations which, if finalized, will have the effect of increasing valuations of noncontrolling interests in family-owned businesses and investment entities for gift, estate, and generation-skipping tax purposes. The proposals are attracting much criticism. A hearing on the proposals is scheduled for December 1. Subsequent courses of action include at least the following:

- The regulations being finalized as proposed
- The regulations being finalized with modifications
- Withdrawal of the proposals followed by further study

Once finalized, the regulations would become law after 30 days. If you are interested in transferring an interest in a family-owned entity, you may want to consider conducting such transactions before the end of the year.

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You May Need to Renew Your ITIN

An ITIN — Individual Taxpayer Identification Number — is used by non-residents of the U.S. who are not entitled to work in the U.S. (and therefore cannot obtain a social security number) to satisfy their U.S. tax filing and payment obligations. All ITINs not used on a federal tax return at least once in the last three years will no longer be valid for use on a tax return as of January 1, 2017.

Additionally, all ITINs issued before 2013 will begin expiring this year, starting with those with middle digits of 78 and 79 (Example: (9XX-78-XXXX). All expired ITINs must be renewed before being used on a U.S. tax return. No action is needed by ITIN holders who don't need to file a tax return next year. Find more information in the ITIN Expiration Frequently Asked Questions at www.irs.gov/individuals/itin-expiration-faqs.

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Some Tax Rates and Amounts for 2017

FICA base — Annual compensation to which Social Security tax applies is $127,200 for 2017 (up from $118,500 for 2016).

Social Security benefits — Individuals who are drawing Social Security benefits prior to attaining full retirement age will begin to suffer reductions in payments if they have earned income exceeding $16,920 in 2017, up from $15,720 in 2016.

Adjustments for retirement accounts — The maximum annual addition to a defined contribution plan is increased to $54,000 for 2017 (up from $53,000 in 2016). The maximum amounts that individuals can elect to contribute to employer-sponsored plans and IRAs for 2017, as shown below, are unchanged from 2016:

Year	IRAs		SIMPLE IRA Plans		Other Employer Plans	
	Annual Contribution	Catch-Up Contribution	Elective Deferral	Catch-Up Contribution	Elective Deferral	Catch-Up Contribution
2017	$5,500	$1,000	$12,500	$3,000	$18,000	$6,000

The maximum amount of compensation that can be considered as the base for retirement plan contributions is $270,000 for 2017 (up from $265,000 for 2016).

Health savings accounts — The limits on contribution deductions for 2017 are $3,400 for self-only coverage (up $50) and $6,750 for family coverage (no change). The additional "catch-up" contribution allowable for those age 55 or older remains $1,000.

Health flexible spending arrangements — The maximum voluntary employee salary reduction for employer-adopted FSAs (flexible spending arrangements) is $2,600 for 2017 (up $50).

Section 179 deduction — The maximum Section 179 deduction for 2017 is $500,000, subject to a dollar-for-dollar phase-out range of $2,000,000 to $2,500,000 of qualifying property purchases in the year.

Estate tax — Federal estate and gift taxes apply to cumulative taxable transfers exceeding $5,490,000 in 2017, up from $5,450,000 in 2016.

Gift taxes — The annual exclusion for gifts per donee remains $14,000 for 2017.

Nanny tax — Cash wages paid for domestic service in the employer's home of less than $2,000 remain not subject to FICA in 2017.

Kentucky Supreme Court Strikes Down Local Minimum Wage Increases

In our last newsletter, we reported that Lexington and Louisville had enacted higher minimum wages than the rest of Kentucky. Because the Kentucky Supreme Court ruled in October that cities within the Commonwealth do not have the authority to raise the minimum wage in the absence of a statewide increase, those increases no longer apply. Therefore, Kentucky's statewide minimum wage remains $7.25 per hour.

Carrie Asalon, casalon@deandorton.com

An Important but Often Overlooked Follow-Up After a Death or Divorce

Most assets pass at death according to the terms of the descendant's will and beneficiary designations of retirement plans and life insurance.

In a real example from a dispute that went to the U.S. Supreme Court, a daughter had an "unpleasant" outcome when her father passed way. Her father's ex-wife was awarded $400,000 from his retirement plan even though she had waived any interest in the plan in the divorce and property settlement agreement.

What happened? The father failed to update his beneficiary designation form to name his daughter as beneficiary. When he died seven years after the divorce, his former wife was still named as the beneficiary. The employer's plan document stated that beneficiaries could only be changed by submitting the required form. The Court held that the administrator of an ERISA-covered benefit plan need only look to the governing plan documents to determine the proper plan beneficiary.

This case reminds us of some very important points:

- Do not rely on documents such as a divorce decree, property settlement agreement, or a will to name beneficiaries of life insurance policies, retirement plans, 529 college savings plans, and/or annuities. Determine the currently named beneficiary for all such assets and, if you want the designation to be changed, obtain the proper forms to change your beneficiary designation and complete and properly submit the forms. Keep copies of the completed forms with your will and other testamentary documents.
- Divorce is not the only situation where failing to update your beneficiaries can cause problems for intended heirs. You may want certain benefits to go to specific children. Their financial or medical situations may have changed. Remind yourself to do an annual "check-up" to review beneficiaries. This should include primary and contingent beneficiaries. It is important to include a secondary beneficiary in case the primary beneficiary predeceases you.

Please contact Missy DeArk if you have questions about this important topic.

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Government Employees and Tax Noncompliance

We're not suggesting that government employees are more noncompliant with tax laws than the general population of taxpayers, but it feels more disappointing when we see those who make and administer tax laws or adjudicate tax disputes are charged with or are proven to have committed tax crimes. Maybe our reaction relates to the fact that we taxpayers pay their salaries.

In a newsletter we issued earlier this year, we reported on charges against former U.S. Tax Court Judge Diana Kroupa. She, along with her husband, recently pled guilty to understating their taxable income by $1,000,000 and understating their liability by $455,000 for the years involved. Kroupa's sentencing recommendation includes incarceration of 30 to 37 months and a fine of $10,000 to $100,000.

Next, a former IRS Criminal Investigation special agent was indicted recently for a long list of tax crimes she allegedly committed while working in Criminal Investigation. If convicted, she is reported to be facing up to 48 years in prison and monetary penalties.

In another recent Justice Department matter, the chief of staff for a Mississippi U.S. Congressman has been criminally charged with failing to file 2009 through 2013 income tax returns. Each count for this offense is a misdemeanor subject to a year in prison and a fine of up to $25,000.

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Key Tax Filing Deadlines Changed

Due dates for certain tax returns for the 2017 tax filing season (returns for 2016) and beyond have been changed. The changes, based on the tax year being the calendar year, are highlighted in the chart below.

Return Type	Form Number	Former Due Date	New Due Date	Former Extended Deadline	New Extended Deadline
Partnership	1065	April 15	**March 15**	September 15	September 15
S Corporation	1120-S	March 15	March 15	September 15	September 15
Trust and Estate	1041	April 15	April 15	September 15	**September 30**
C Corporation	1120	March 15	**April 15**	September 15	September 15
Individual	1040	April 15	April 15	October 15	October 15
Foreign Account Reporting	FinCen114	June 30	**April 15**	None	**October 15**
Exempt Organization	990	May 15	May 15	November 15	November 15

Note that the dates shown do not reflect what the due dates were or will be in cases where these dates fall on weekends or holidays. In these cases, the due dates fall back to the next business day.

The due dates for certain wage information forms also have changed. Forms W-2 and Forms 1099-MISC with amounts reported in box 7 for nonemployee compensation must be submitted to the IRS by January 31. The extended due date for electronically filing these forms is no longer available. The forms are due to be sent to the recipients by January 31, as well.

Natalie Schuler, nschuler@deandorton.com

People News

We welcome the following new team members:

Sally Johnson joined our Assurance Services group in Louisville after moving from Minneapolis. She has two years of public accounting experience. She earned her Bachelor of Science degree in Accounting and Music Liberal Arts degree (piano) from Winona State University in Minnesota.

Lauren Mayfield joined our Accounting and Business Services group in Louisville after earning her Bachelor of Science degree in Accounting from Murray State University.

Austin Meek, who previously served as an intern in our consulting group, joined our Accounting and Business Services group in Lexington. He earned a Bachelor of Science degree in Accounting from Georgetown College and a Master of Science degree in Accounting from the University of Kentucky.

Alison Melton joined our Accounting and Financial Outsourcing (AFO) group in Louisville. She has 30 years of work experience, mostly in accounting and clerical roles.

Laban Miller also joined our Accounting and Business Services group in Lexington. He earned Bachelor of Science and Master of Science degrees in Accounting from the University of Kentucky.

Karen Patros joined the Office Services team in Lexington. She has 20 years of diverse office work experience.

Cameron Sallee joined our Accounting and Business Services group in Lexington after earning his Bachelor of Science degree in Accounting from the University of Kentucky.

Briana Stone, a CPA, joined our Tax Services group in Louisville. Briana has five years of experience in public accounting and two years as a corporate accountant. Briana earned her Bachelor of Science and Master of Science degrees in Accounting from Ball State University in Muncie, IN.

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People News, continued

We recognize the following activities and accomplishments of our team members:

New Dean Dorton team members **Laban Miller**, **Cameron Sallee**, and **Brandon Young** each passed all four sections of the CPA exam.

Katie Butler, **Brian Frick**, **Mick Rebholz**, and **Lance Turpin** received their CPA certifications.

Elizabeth Woodward was appointed to serve on the AICPA Forensic and Litigation Services Committee.

Jim Tencza and **Elizabeth Woodward** presented an Ethics Annual Update at the Institute of Internal Auditors' Louisville Chapter meeting.

Amelia Sebastian graduated from Leadership Louisville Center's Ignite Louisville Class of Fall 2016.

Hunter Stout was appointed President of the Bluegrass Chapter of the Construction Financial Management Association.

Crissy Fiscus participated as a presenter as part of a webinar titled "Avoiding Pitfalls in Federal Student Financial Aid," which was presented jointly with Steptoe & Johnson.

Melissa Hicks spoke at the KyCPA's "Horsing Around Equine Update."

John Herring was named a Director-at-Large for the United States Tennis Association Board of Directors for 2017-2018. He was also named as a trustee of the Southern Tennis Patrons Foundation for 2017-2019.

Jen Shah participated in the Thoroughbred Owner Conference's "Business Considerations for Racehorse Ownership" panel.

Bill Kohm was appointed to the Kentucky Reclamation Guaranty Fund Commission.

Matt Smith was elected Chairperson on the Board of White House Clinics. He also presented "Understanding Dental Office Cash Flow" to dental school students at a UK College of Dentistry seminar.

Allison Carter, **Gina Whitis**, and **Jeff Ricketts** spoke at the Kentucky Nonprofit Network "Current Issues in Advising Tax-Exempt Organizations" seminar.

Jim Tencza, **Jason Miller**, and **Nick Lynch** spoke on "Risk Management: Internal Controls, Fraud Prevention, and Cybersecurity" at a NationaLease Financial Officers meeting.

Shawn Stevison, **Jim Tencza**, **Elizabeth Woodward**, **Nick Lynch**, **Jason Miller**, and **Kevin Cornwell** spoke at Dean Dorton's Board Oversight and Risk Management Seminar.

Jen Shah, **Nick Lynch**, **Elizabeth Woodward**, **Jason Miller**, **Doug Dean**, **Natalie Schuler**, and **Melissa Hicks** presented at Dean Dorton's Equine Tax & Accounting Update program.