

SPRING 2017

2016 Tax Return Pointers and Reminders

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2016 federal and most state individual income tax returns are **due to be filed** by Tuesday, April 18, 2017.

Individuals who need additional time to file 2016 income tax returns may file for an **automatic extension** of time to file until October 16, 2017. The extension of time to file is not an extension of time to pay. Failure to pay tax shown on your return is subject to interest and to a 0.5% per month failure-to-pay penalty. You should make a good-faith effort to estimate the amount of tax due and report that amount on your extension form. Failure to do so may invalidate your extension and result in imposition of the failure-to-file penalty — a steep 5% per month of the balance due. You can underestimate the tax by up to 10% on the extension form without incurring penalties, but interest still applies.

As you're compiling your 2016 tax information, give some thought to what information you would need **if your return is selected for audit** and how you would access that information. Many of us rely upon online datebooks and financial records stored electronically that may simply not be available when needed. The information may be on the hard drive of a computer that "died." It may be online with your bank but only available for, say, a year. It may be in your Outlook calendar at your former employer or that of your current employer, who may retain such information for only a limited duration. Or it may be in a program that is now completely out of date. Because the electronic world is changing faster every year and we rely on it to do more for us, we need to think proactively about how we'll retrieve that information, if needed, from our electronic information sources.

Current tax law is very clear in requiring a contributor to have a timely written gift acknowledgment containing certain information in order for **charitable gifts of \$250 or more** to be deductible. The charitable organization's letter must state the gift's date and amount and either (1) affirm that no goods or services were provided in connection with the gift, or (2) if such goods or services were provided, identify what they were and their value, and include a statement that the amount deductible is limited to the excess of the amount given over the value received. The deduction also is contingent on the contributor having the acknowledgement letter by the earlier of the filing date or due date (including an extension) of the return.

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TAX QUOTE

"The problem [with the tax code] is not just that the law is overly complex. The problem is also that we change it all the time."

— Gordon D. Henderson

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

2016 Tax Return Pointers and Reminders, continued

An impact of globalization is a greater incidence of U.S. persons having **financial accounts or owning other property outside the U.S.** Additional reporting requirements are imposed on certain owners of such assets. These reporting requirements may apply if:

- You have a beneficial interest in or signature authority over a foreign bank or investment account.
- You own an interest in a foreign corporation, partnership, or other business entity (not held in an investment account), a note, or other receivable due from a foreign borrower, or any other interest in any foreign financial asset.
- You have an interest in a foreign trust or estate, have ever created a foreign trust, or received a gift or bequest from a foreign person during the year.

The Kentucky individual income tax return includes a line to report **use tax** on purchases from out-of-state retailers. If you purchased items online or from a catalog and did not pay sales tax on those items, you would report the use tax on this line.

If you pay no or minimal state income tax, please note that you can choose to **deduct state sales tax** instead of state income tax as an itemized deduction. Consider whether you made any large purchases, such as vehicles, during 2016.

IRA contributions, if any, for 2016 must be made by April 18, 2017.

Kentucky residents are allowed to deduct after-tax payments they made for **health and long-term care insurance**, without regard to limits that apply for federal income tax purposes. Our clients for whom this may apply should provide us with their 2016 payments of these types.

You can check the status of your **2016 tax refund**, if you are due one, at irs.gov/refunds. To check your refund status, you will need your tax identification number, filing status, and refund amount from your return. For Kentucky refunds, visit revenue.ky.gov/Pages/MyRefund.aspx. Please note that due to rising rates of identity theft, refunds may be delayed.

Publications and Events

Higher Education: Current Issues and Trends

Our College and University Team is holding its third annual Higher Education: Current Issues and Trends program on March 23 at Northern Kentucky University. The program, which will provide up to seven hours of complimentary CPE, focuses on regulatory, financial management, and technology issues. Visit deandorton.com/higher-education-registration to register. The team's *State of Higher Education in Kentucky* publication, which reviews national and state trends in tuition, enrollment, retention, graduation rates, and state funding will be discussed at the training day.

Thoroughbred Business Year in Review

Our Equine Industry Team's annual Thoroughbred Business Year in Review for 2016 compares broodmare, yearling, and weanling sale prices, stud fees, sales proceeds, cost of ownership, and more to data from previous years, analyzing industry trends. If you would like hard copies, please email Shannon Abbott at sabbott@deandorton.com.

Healthcare Risk Management Report

Our Healthcare Industry Team recently surveyed hospitals, health systems, medical offices, urgent care centers, and assisted living facilities regarding risk management. The results from this survey allow us to keep our fingers on the pulse of issues, challenges, and successes that are shaping today's healthcare landscape.

Thoroughbred Farm Compensation Report

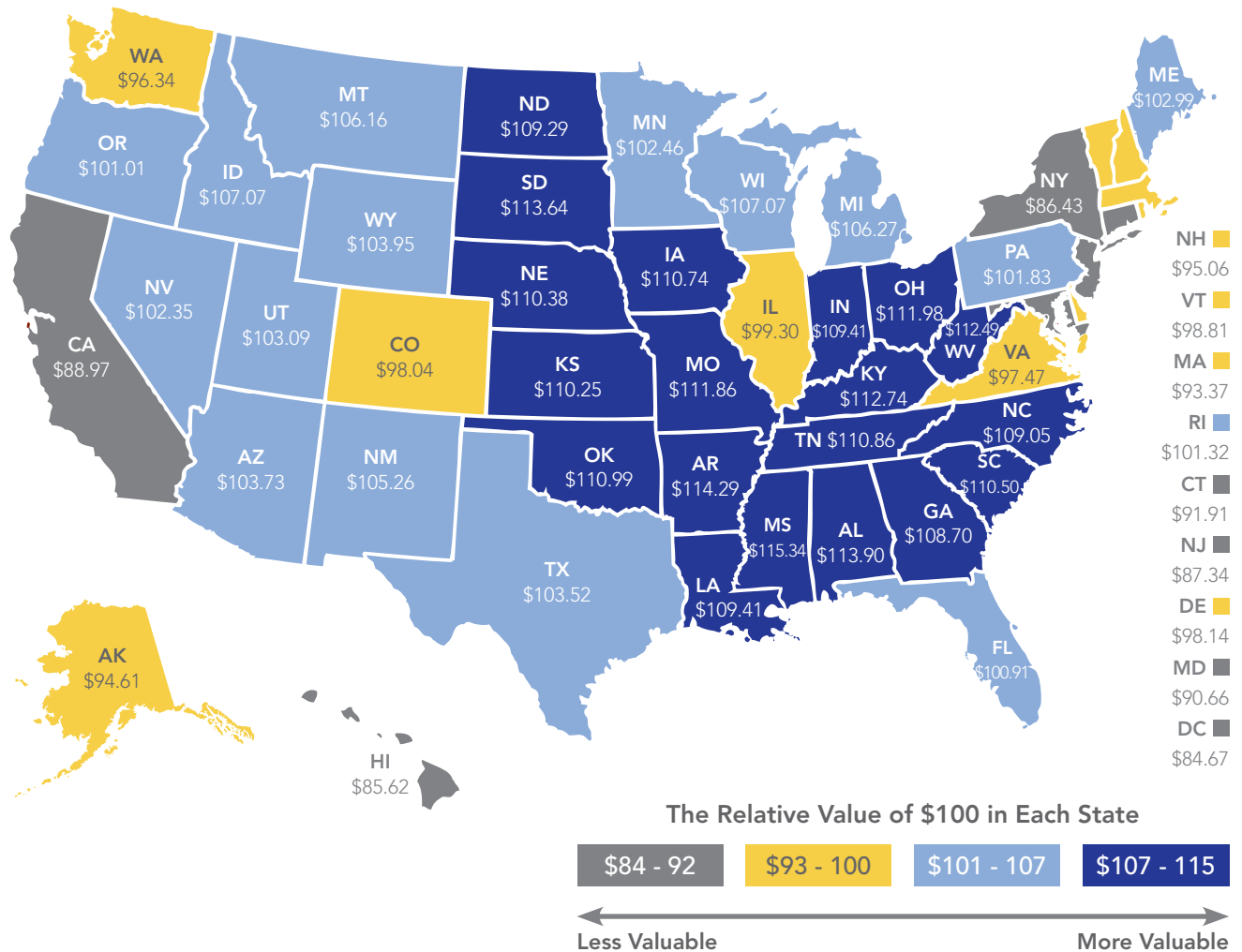
Our Equine Industry Team released its most recent Compensation and Benefits survey report, which focuses on compensation and benefits currently provided by Kentucky Thoroughbred horse farms.

View Publications

The above publications and reports are available at deandorton.com/publications.

Relative Value of \$100 by State

The geographical size of the United States and the diversity of its economy leads to a wide range of the purchasing power of \$100 across the nation. Some states are more expensive than others, in terms of the price of goods in each state. According to the Tax Foundation, Washington D.C. has the lowest relative value, meaning that items purchased in D.C. tend to be more expensive than anywhere else in the nation. Kentucky's value relative to \$100 is \$112.74, meaning that items purchased in Kentucky tend to be priced lower than the national average cost. The Commonwealth is the fifth least expensive state, according to the Tax Foundation.



Read more at taxfoundation.org/blog/real-value-100-each-state-2016.

Carrie Asalon, casalon@deandorton.com

2017 Automobile Deduction Rates

When we published our Winter 2016 newsletter, the 2017 standard mileage rates for deducting certain automobile expenses had not yet been released. Now they have been:

Business	\$0.535
Charity	\$0.14
Medical	\$0.17

Medicare Enrollees Face Higher Premium Payments

Medicare Part A (hospitalization insurance) premiums generally are paid with Medicare payroll tax funds. But, Medicare Part B (doctors and other medical expenses not paid under parts A and D) and D (prescription drugs) are funded in part by monthly premiums, the amounts of which are impacted by beneficiaries' income levels. Higher income beneficiaries pay higher premiums. The measure of income used for this purpose is adjusted gross income (AGI), with certain modifications (MAGI), with the most common modification being the inclusion of tax-exempt income.

Your premiums for Part B and D depend on which MAGI bracket you fall within. Your MAGI bracket for a particular year is based on your actual MAGI for the second preceding year. For example, your premium for 2017 is based on your 2015 MAGI.

The following table shows the MAGI brackets used for determining 2017 Parts B and D annual premiums (paid on a monthly basis) for unmarried individuals and married couples filing jointly (per Medicare enrollee spouse):

If your MAGI in 2015 was:		You pay per year for Part B (in 2017)	You pay per year for Part D your plan's premium, plus (in 2017)
Individual tax return	Joint tax return		
\$85,000 or less	\$170,000 or less	\$1,608.00	\$0.00
Above \$85,000 up to \$107,000	Above \$170,000 up to \$214,000	\$2,250.00	\$159.60
Above \$107,000 up to \$160,000	Above \$214,000 up to \$320,000	\$3,214.80	\$410.40
Above \$160,000 up to \$214,000	Above \$320,000 up to \$428,000	\$4,179.60	\$662.40
Above \$214,000	Above \$428,000	\$5,143.20	\$914.40

Married couples filing separate returns face higher premiums at even lower breakpoints than joint filers.

You can see from this that your income (MAGI) can increase by as little as \$1 at the break point in the brackets, resulting in several hundred dollars of increase in the annual cost of your Parts B and D premiums. In some cases, it may be worth monitoring your income to avoid the increased expense.

You may be able to avoid some additional premiums by considering ways to reduce MAGI, such as:

- Adjusting the timing of selling assets; selling assets at a loss or delaying sales of assets at a gain
- Structuring a sale of real estate as either a like-kind exchange or an installment sale
- Delaying retirement plan distributions in excess of your required minimum distribution (RMD)
- If you are charitably-minded and over age 70 ½, instead of taking distributions from an IRA, have the distribution paid directly to a charity

If you are notified by Social Security of a planned Medicare premium increase based on MAGI, a few events ("Life Changing Events") could make you eligible to apply for an adjustment. Examples that qualify are:

- Marriage
- Divorce or annulment
- Death of a spouse
- Loss of pension income

New Firm Services

Accounting and Financial Outsourcing

Dean Dorton's new Accounting and Financial Outsourcing (AFO) services provides cloud-based financial management and accounting solutions. In addition to traditional general ledger, accounts receivable, and accounts payable functions, we can create custom reports and "dashboard" metrics to help our clients manage their businesses. For more information, visit deandorton.com or contact Mike McCreary at mmcreary@deandorton.com.

Human Resources Consulting

Dean Dorton provides organizations with a variety of human resources (HR) consulting services, which generally are intended to identify potential problems and help to develop practical solutions. We can respond to HR needs that you may not have time, expertise, or resources to manage efficiently and effectively. For more information, contact Jeff Ricketts, HR Consultant, at jricketts@deandorton.com.

Best Places to Work

For the thirteenth consecutive year, we have been named one of the "Best Places to Work in Kentucky" by the Kentucky Society for Human Resources Management State Council and the Kentucky Chamber of Commerce. This competition, which is based on confidential survey results, is a multi-year initiative designed to motivate companies in the Commonwealth to improve their workplace environments. We are pleased to be one of only a very few companies on the list every year of the program's existence.



People News

We welcome the following new team members:

Isaac Archer recently joined our Business Consulting group in Lexington, after working with a CPA firm in Los Angeles. Isaac earned his Bachelor degree in Business Administration and Accounting from Asbury University (where he served as Student Body President for two terms) and his Master of Professional Accountancy degree from Azusa Pacific University.

Bryan Bulkley, a CPA, has rejoined our Assurance Services group in Lexington. He has five years of assurance services experience.

Kyle Fiedler is working with our Office Support team in Lexington, while studying psychology at the University of Kentucky.

Stefan Hendrickson, a CPA, joined our Tax Services group in Lexington. He has over 15 years of tax services experience. He earned his Bachelor degrees in Accounting and Management, as well as his Master degree in Accounting, from the University of Kentucky.

Christi Smith joined our Human Resources team in Lexington, while studying Business Management at Sullivan University. She has over nine years of experience in the finance industry.

We welcome the following team members who are starting their professional accounting careers with us:

Nick Lawson earned his Bachelor degree in Accounting, with a minor in Spanish, from Transylvania University; **Lauren Mayfield** earned her Bachelor degree in Business and Accounting from Murray State University; **Zach Meikle** earned his Bachelor degree in Accounting from Transylvania University; **Alex Meyer** earned his Bachelor degree in Accounting and Master degree in Business Administration, with a concentration on Finance, from Bellarmine University in Louisville; **Laban Miller** earned his Bachelor and Master degrees in Accounting from the University of Kentucky; **Patrick O'Brien** earned his Bachelor degrees in Accounting and Finance from the University of Kentucky; **Olga Parshenkova** earned her Bachelor and Master degrees in Accounting from the University of Kentucky; **Cameron Sallee**

People News, continued

earned his Bachelor degree in Accounting, with a minor in International Business, from the University of Kentucky; **Ben Stewart** earned his Bachelor degree in Accounting from Indiana University Southeast, and he served in the U.S. Navy for five years, gaining experience in asset management and operations management; and **Brandon Young** earned his Bachelor degree in Accounting, with a minor in Economics, from Eastern Kentucky University and his Master degree in Accounting from the University of Kentucky.

Interns working with us are University of Kentucky students **Blake Bostick**, **Alex Crawford**, **David Gardiner**, **Andrew Mason**, **Lillie Stivers**, and **Dome Vongvises**, Eastern Kentucky student **Estelle Withrow**, Bellarmine University student **Joey George**, and Indiana University Southeast student **Julianne Kramer**.

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

Austin Fox, **Austin Meek**, **Zach Meikle**, and **Olga Parshenkova** passed all four sections of the CPA exam.

Jim Tencza passed all sections of the Certified Internal Auditor exam, earning his Certified Internal Auditor distinction.

Crissy Fiscus joined the Foundation for Appalachian Kentucky Board of Directors.

Crissy Fiscus and **Megan Crane** presented a case study, "School Put on HCM2 and Closed," at the Southern Association of Student Financial Aid Administrators (SASFAA) Annual Training Conference.

Elizabeth Woodward was selected to serve as Chair of the AICPA Forensic and Valuation Services Fraud Task Force.

Melissa Hicks was elected to serve on the Board of Directors for the Lexington Humane Society.

Doug Dean wrote an article titled "The Path to Capital Gain Tax Treatment for Horse Sales," which was published in the December 2016 American Horse Council Tax Bulletin.

Jen Shah was elected to serve as Treasurer of the Thoroughbred Aftercare Alliance Board of Directors. She also presented on tax matters at a Thoroughbred Owners of California tax seminar.