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As in previous years, we would like to take this opportunity to review a few of the tax law changes and alert you to some tax saving moves that can still be made for the year 2016. This letter presents some planning ideas to consider while there is still time to act before the year-end.

Remember that your "in-office" tax appointments are **prescheduled** and included in your organizer. You will receive your 2016 organizer in early January.

At this time last year there were many tax provisions that were due to sunset. Below are a few that were extended either temporarily or permanently.

- Deduction for state and local sales taxes extended permanently.
- \$250 deduction for certain expenses of teachers permanently extended.
- Deduction for mortgage insurance premiums treated as qualified interest extended through 2016.
- Exclusion (from gross income) of up to \$2 million (\$1 million if married filing separately) of discharged qualified principal residence indebtedness extended through 2017. **California does not conform.**
- Increase in expensing business property up to \$500,000 and investment-based phaseout amount to \$2 million.
- 50% bonus depreciation extended through 2017 with phase down beginning in 2018.
- 15-year straight line cost recovery for qualified leasehold property, qualified restaurant property, and qualified retail improvements extended permanently.
- Tax-free distributions for charitable purposes from individual retirement account (IRA) accounts of taxpayers age 70 ½ extended permanently.
- Special rules for contributions of capital gain real property for conservation purposes extended permanently.

To view the chart of **Retirement Contribution limits** for 2016 and 2017:

<http://www.fieldercpa.com/chart-of-retirement-contribution-limits.php>

To view the chart of **Depreciation for Business Equipment** for 2016 and 2017:

<http://www.fieldercpa.com/common-tax-questions.php> click on 2016 Depreciation Chart

IRS increases *de minimis* safe harbor (11-25-15)

On November 24, 2015, the IRS issued **Notice** 2015-82, increasing the *de minimis* safe harbor under the repair regulations from \$500 to \$2,500 for taxpayers without an "applicable financial statement." Under the regulations, a taxpayer may elect to expense items of tangible personal property that the taxpayer acquires or produces during the taxable year if certain requirements are met. **California now conforms for 2016.** The limitation for taxpayers with an applicable audited financial statement remains at \$5,000.

To view the chart of **2016 Standard Mileage Rates**: Reminder- **The IRS does not accept "same as last year" as accurate:**

<http://www.fieldercpa.com/standard-mileage-rates.php>

Please see the link below for new tax deadlines:

http://fieldercpa.com/new-law_tax-return-due-dates.php

Individual Health Care Mandate - Unless you are covered by an exemption, you are required to maintain basic health insurance coverage (known as minimum essential coverage) for yourself and any of your dependents, or pay a shared responsibility payment (a penalty). The requirement to maintain coverage or pay a penalty is generally called the "individual mandate." To view the penalties please see the chart below.

<http://fieldercpa.com/chart-individual-health-care-mandate.php>

Estate and Gift Tax - For 2016, estates over \$5,450,000 will be subject to estate tax. You may choose to make annual exclusion gifts before year end to minimize estate tax. You can give \$14,000 (both for 2016 and 2017) to an unlimited number of individuals free of gift tax. However, you may not carry over unused exclusions from one year to the next. The

transfers also may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax. **Gifts in excess of the annual exclusion may require you to report on Form 709.**

Nanny Tax - If you have individuals over the age of 18 performing service in your residence their earnings may be subject to payroll taxes. The threshold for this is earnings greater than \$2,000 for 2016 and \$2,000 for 2017. You may also be required to issue them a Form W-2.

Businesses with Family Help - One advantage of operating your own business is hiring family members. Consider hiring your children. Payments for services of a child may have no income tax liability if their earned income is equal or less than \$6,300. Then you can combine this with a Roth IRA for your child to contribute up to \$5,500.

California Like-Kind Exchange - Beginning in 2014, California requires that all individuals and business entities that perform like-kind exchanges of property located in California for property located outside California must file a California Like-Kind Exchange information return. You must continue to file this form annually as long as you defer the gain or loss.

Nevada Enacts Commerce Tax - The Commerce Tax is an annual tax passed by the Nevada Legislature during the 2015 Legislative Session. The tax is imposed on businesses with Nevada gross revenue exceeding \$4,000,000 in the fiscal period of **July 1 through June 30. Any person or entity that engages in business in Nevada is required to file a Commerce Tax Return regardless of liability.**

This includes:

C - Corporations,

S - Corporations,

Partnerships,

Trusts,

Sole Proprietorships,

including Individuals who file a Sch C - Sole Proprietors (Independent Contractors 1099-MISC)

Sch E - Rental Properties

Sch F - Farm

Even if you are not located in Nevada, you may have income from Nevada customers or clients which will require you to annually report your Nevada sourced income.

Ex: 1. You are a California resident performing independent contractor services for a Nevada customer. Nevada considers you to be engaged in business in Nevada and you have a filing requirement under this new law.

2. You use a Nevada license (professional, contractor, etc) to perform services. The revenue associated with those projects is considered Nevada sourced income.

3. Pass thru entities such as S Corporation or Partnerships will have a filing requirement as will **each** of their shareholders/partners for their distributive share of the Nevada sourced income.

The taxable year is July 1, 2016 through June 30, 2017.

The Commerce Tax return is due 45 days following the end of the fiscal year ending June 30. This year, **the return is due on 8/15/17**. The tax rates vary from 0.051% to 0.331% depending on the industry in which the business entity is primarily engaged.

General Reminders

Foreign Accounts or Investments - The reporting requirements for assets held overseas are increasing and the penalties for failure to report them are significant. Foreign bank accounts, notes receivable, ownership in a foreign partnership or corporation, and interest in Canadian RRSPs are some examples. Form 8938 and Form TD F 90-22.1 may be required to be attached with your annual tax return. If you have any questions about any foreign accounts please contact me.

QuickBooks - **Mac v. Windows** - If you are contemplating converting or obtaining the Mac version of QuickBooks, please consider using a software to run Windows on your Mac and use the Quickbooks for Windows. There are several different methods for running Windows on Intel Macs. Here are a few: Apple's Boot Camp, Parallels Desktop, VMware Fusion, VirtualBox, and CrossOver Mac. Please contact your IT department or firm for recommendations.

Versions earlier than 2012 - If you are using a QuickBooks version 2011 or earlier, **please call so we can discuss technology issues regarding those versions.**

Inventory - Make sure you take a thorough and accurately priced detail of your inventory at your business year-end. This documentation is critical in the event there is an audit.

S-Corporation Shareholders - Remember to contact your payroll service for common year-end adjustments to your W-2. Health insurance paid for you by your corporation should be added to your W-2. Also, personal use of vehicles owned by your corporation may result in income to be reported by you on your W-2. This calculation should be done in early January in order to avoid amending your W-2. It may be helpful to review your investment basis in a Partnership or S - Corporation prior to year-end in order to utilize any losses incurred. Please contact us for any year end calculations related to tax planning.

IRS Email Spam - Beware of any emails you receive claiming that they are from the IRS. The IRS has issued several recent consumer warnings on the fraudulent use of the IRS name or logo by scammers trying to gain access to consumers' financial information in order to steal their identity and assets. **The IRS never contacts you by email.**

IRS Telephone Scam - The aggressive use telephone scams has been on the rise in recent years. Please be aware that the IRS will always send taxpayers a written notification of any tax due via the U.S. mail and not by telephone.

Documentation - IRS recently ruled that credit card statements are not sufficient support and that actual receipt of charges are required. Please keep 7 years of records. If assets are still owned, please keep purchase records for 7 years after the date of sale.

Form 1099s - A reminder that these are due to recipients by January 31, 2017. If your trade or business pays a non-incorporated service provider greater than \$600/year then you will need to issue them a Form 1099-MISC. **The requirement that this would apply to landlords or payment for goods was repealed. Penalties for not filing can be \$100 per each omission. Even though California does not have a separate Form 1099, you may be denied the deduction for that expense by California if no Federal 1099 was issued.** In addition, California requires that you submit Form DE 542 to report service providers you expect to do business with in 2016. This form is due within 20 days of paying or entering into a contract with an independent contractor. It may save time to process these in conjunction with your 1099s.

Withholding for California Nonresidents - A 7% withholding is required on payments made to nonresident independent contractors for services performed in California for payments in excess of \$1,500 for the calendar year. This also applies to payments made to non-resident partners or s-corporation shareholder. **In addition, this withholding is required for non-resident property owners with California rental properties.** Form 588 should be filed by the payee to request exemption from this requirement by agreeing to file non-resident California income tax returns.

Use Tax - Use tax is the amount of sales tax that may not have been collected on a purchase you made. This often happens when you purchase items on the internet and are not charged sales tax, or purchase items in another county and pay less sales tax than the county you live in. Most states which have a sales tax in place have a requirement for you as an individual or business owner to pay the use tax. Please visit my website www.fieldercpa.com for links to different state's use tax rules.

Businesses may have a Use Tax filing obligation with CA BOE (even strictly service providers). The use tax returns are due by April 15th each year if you do not normally file sales tax returns. These returns are required even if you do not owe use tax. In some cases, if you have registered and reported zero use tax owed for three years in a row the BOE will send out notices that they are closing your registration for annual reporting. If you are unclear about your status or reporting requirement, please let me know.

California individuals who owe use tax on internet or out of state purchases should report those transactions on their annual California income tax returns.

Change in Ownership of California Real Estate – If you transferred more than 50% interest in real estate you should file a “change in ownership” report with California BOE within 45 days to avoid penalties. There are some transfers which are excluded from this requirement. Please check with me for your responsibilities.

Sincerely,

