

# PHILIP SEZ ✓ IT OUT YEAR-END TAX PLANNING TIPS

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Hello Everyone

**Happy Holidays to you and yours!**

**AS YOU MUST HAVE HEARD, CONGRESS IS MOVING FORWARD WITH A MASSIVE TAX OVERHAUL. IT IS HAS NOW BEEN AGREED UPON, AND EXPECTED TO BE VOTED ON BEFORE THE 22ND. UNLESS YOU HEAR OTHERWISE FROM ME, ASSUME ALL FACTS HERE ABOUT THE NEW LAW STICK. EVERYTHING IN THIS NEWSLETTER WHICH RELATES TO PLANNING FOR THE NEW TAX LAW WILL BE GREEN, SO BE SURE TO FIND ALL THE GREEN IF YOU CARE ABOUT IT. PLEASE UNDERSTAND THAT THIS IS NOT JUST RUN-OF-THE-MILL BUSINESS AS USUAL. IT IS THE BIGGEST CHANGE IN THE TAX CODE SINCE 1986. THE BILL IS 1,100 PAGES. I CAN ASSURE YOU THAT IF YOU MAKE LESS THAN \$500,000 AND/OR WORK FOR A LIVING, YOU WILL LIKELY BE PAYING QUITE A BIT MORE, UNLESS YOU HAVE A LOT OF KIDS. IT WILL NOT TAKE EFFECT UNTIL THE 2018 TAX YEAR, EXCEPT FOR THINGS I HAVE IDENTIFIED WITH A SPECIFIC DATE.**

**THE GREEN TEXT INCLUDES ANYTHING THAT WHICH COULD AFFECT YOUR PLANNING FOR 2017 OR THINKING FOR 2018 BASED ON 2018 LAW. DITTO ANYTHING ABOUT THE LAW I THINK YOU SHOULD KNOW NOW. 2017 TAX LAW CONTINUES AS IT IS, EXCEPT WHERE I HAVE MADE A STATEMENT WITH A 2017 DATE WITHIN THE GREEN TEXT.**

**I KNOW SOME OF YOU ARE BORED TO TEARS WITH THIS STUFF, BUT AT LEAST READ THE GREEN, RED AND BLUE THINGS! IT IS LATE IN THE GAME, SO BROWSE IT FAST, OR READ THE COLORED AND BOLD STUFF PLUS ANY HEADINGS WHICH YOU HAVE AN INTEREST IN.**

**IF YOU ISSUE 1099 FORMS, BE AWARE THAT THEY MUST BE REPORTED TO IRS BY JANUARY 31<sup>ST</sup> NOW, NOT FEB 28<sup>TH</sup> OR MARCH 31<sup>ST</sup>. IF I AM PREPARING THEM FOR YOU, I MUST HAVE THE INFORMATION NO LATER THAN JANUARY 15<sup>TH</sup>, OR I WILL DECLINE TO PREPARE THEM. FAILURE TO FILE TIMELY WILL INCUR A PENALTY OF \$260 FOR EACH 1099.**

**IF YOU USE YOUR CAR FOR BUSINESS, BE SURE TO NOTE YOUR ODOMETER READING ON 12/31! THIS TAKES ABOUT A MINUTE. BY DOING IT EVERY YEAR, WE WILL ALWAYS KNOW YOUR TOTAL MILES DRIVEN. SEE INTERESTING ARTICLE ON TRACKING MILEAGE LATER IN THIS NEWSLETTER.**

**NEW SECURITY ISSUES PERTAINING TO YOUR TAXES: IRS AND CA ARE BOTH VERY PARANOID ABOUT ID THEFT. AS A RESULT, THEY ARE PASSING ON A LOT OF EXTRA THINGS TO DO TO BOTH PRACTITIONERS AND SOFTWARE PROVIDERS. THERE WILL BE EXTRA THINGS I MAY NEED TO ENTER TO YOUR TAX RETURN, INCLUDING POSSIBLY YOUR DRIVER'S LICENSE. THERE ARE FIELDS FOR THE DRIVER'S LICENSE IN THE CLIENT INFO SECTION OF YOUR ORGANIZER. IT IS NOT YET MANDATORY AT THIS DATE. SEE SOME SECURITY TIPS LATER IN THE DOCUMENT. THERE HAS BEEN A LOT PUBLISHED EVERYWHERE ABOUT THE EQUIFAX BREACH, SO I WILL NOT WASTE ANY OF OUR TIME DISCUSSING IT.**

**AIRBNB, UBER, ETC.: CRITICAL IMPORTANCE. IF YOU HAVE RECEIVED MONEY FROM AIRBNB, HOMEAWAY, VRBO, OR ANY OTHER SERVICE IN 2017, I WANT YOU TO CONTACT THIS OFFICE BY JANUARY 31<sup>ST</sup> AT THE LATEST, OR YOU MAY BE IN DANGER OF HAVING YOUR ENGAGEMENT WITH US TERMINATED. DITTO IF YOU HAVE BEEN PAID FOR DRIVING FOR UBER, LYFT, OR SIDECAR. I BELIEVE AIRBNB WILL BE ONE OF THE BIGGEST MONEYMAKERS FOR IRS EVER, AND THAT WE WILL SEE MASSIVE AUDITING ON RECIPIENTS OF MONEY.**

**BE SURE TO ALWAYS CHECK THE PHILTAX WEB SITE FOR ANY BREAKING NEWS REGARDING TAX LEGISLATION. TAKE ADVANTAGE OF THE MANY EXCELLENT TOOLS AND FINANCIAL CALCULATORS. YOU SHOULD MAKE A HABIT OF CHECKING IT OFTEN, AS MORE COMMUNICATIONS WILL BE PLACED THERE. ALWAYS CHECK "PHIL'S DOCUMENTS & FORMS" UNDER THE RESOURCES PAGE, OR USE THE DIRECT LINK TO IT ON THE RIGHT SIDEBAR OF EACH SCREEN.**

**I RECOMMEND SIGNING UP FOR THE WEBSITE QUARTERLY EMAIL NEWS BLAST. YOU CAN ALSO CHECK THE ARCHIVES OF PAST ISSUES IN THE NEWSLETTER PAGE. SUBSCRIBE AT: <http://www.philtax.com/subscribe>**

**COLLEGE TUITION – IRS IS ASKING A LOT OF QUESTIONS. IF THE 1098-T YOU RECEIVE FROM AN EDUCATIONAL INSTITUTION FOR EDUCATION FOR YOU OR YOUR CHILD HAS THE AMOUNT IN BOX 2, "TUITION BILLED," AS OPPOSED TO BOX 1, "TUITION PAID," WE WILL NEED ACTUAL RECORDS AND PROOF OF THE AMOUNT THAT WAS PAID, OR WE WILL BE UNABLE TO TAKE A CREDIT OR DEDUCTION. TIME TO ASK YOU FOR THIS WILL OF COURSE INCREASE YOUR FEE, SO PLEASE PAY ATTENTION TO THIS PARAGRAPH AND PROVIDE THE INFO. IF YOUR DEDUCTION OR CREDIT IS DENIED, IRS WILL NOT ALLOW YOU TO TAKE IT FOR THE ENSUING 2 YEARS FORWARD.**

**WE ACCEPT CREDIT & DEBIT CARDS**

**OUR TARGET FOR MAILING YOUR ORGANIZERS IS BY THE WEEK OF JANUARY 15<sup>TH</sup>. BE ON THE LOOKOUT FOR YOUR PACKAGE. IF YOU ABSOLUTELY WOULD PREFER TO RECEIVE YOUR ORGANIZER AND OTHER DOCS ELECTRONICALLY VIA PDF, PLEASE CONTACT US BY JANUARY 6<sup>TH</sup>.**

Check out the last 2 pages of this file. It contains a cool tax appointment worksheet, courtesy of the National Association of Enrolled Agents (NAEA). It will help you remember what things to look for and which documents to find in advance of receiving your organizer.

Secure document exchange: In this world of rampant identity theft, we remain on the cutting edge of protecting our clients' privacy and security. Many other firms just do not understand this. Sensitive documents we send to you are placed on a secure server. Military-grade 256K encryption is used for both upload and download, and documents are encrypted on the server with multiple layers of security. We recommend deleting the notification email after you have downloaded and/or printed the documents. When you send us a document, please use the link in our email signature for sending a secure file. This is really easy and only takes a minute. It is absolutely crazy to just attach something with your SSN in it to an email. It is akin to leaving the door to your house wide open. For more info, please see my write-up on secure document exchange: <http://philtax.com/documents-forms/>. We can also give you your own portal if you wish. Tax returns and other important documents may be stored there long-term.

I will not send this newsletter out by regular mail as a printed document. I am sending it only to my e-mail list. If you have a friend that you think may want to receive it, give them my e-mail address, and ask them to use a subject line "friend of (your name)" and request the year-end tips in the body of the e-mail. **I have changed the text color on a few very important items.** If you cannot find time to read all of this, please note these items.

Please remember that the folks who generally read the things I send them are more likely to save money on their taxes and also save on my fees. It seems like I often spend quite a bit of time with certain clients explaining things to them which I had previously sent out in written communications. One of the most time consuming items has to do with mortgage interest and the rules for what is and is not deductible. **For now, please note this instruction: Your 1098 will show your beginning principal balance, but may not have the ending balance. If your form does not show the ending principal balance, call the bank and find out. In most cases, I will look at them for 1-2 minutes and decide there is nothing else to do. If there is something to do, it cuts down on the questions I have to ask you and the things you have to look for. Be sure to include information for second mortgages and lines of credit. Mortgage interest deductions are now a primary audit target on individual audits for both IRS and FTB.**

**Please keep in mind that this newsletter contains generic advice geared to the average person, and if you have a complex tax return or tax situation for 2017, some of it may not apply to you. If you feel that you may warrant a special situation and wish to do some tax planning, be sure to call. You should keep your eye out for update emails from me and check the Philtax website.**

## New Tax Law Quick General Overview

The following is a short summary (all 2018). Some items may be referenced again the remainder of the newsletter. I give you line numbers from your 2016 return in some cases, so you could see the effect. I am not going to bother giving you the perks for big corporations.

- This tax bill sunsets (expires) at the end of 2025, which means that everything will revert at that point. This is a trick to sweep it under the rug so they can figure out how to create less deficit. I have no faith at all in them being able to succeed.
- Standard deduction will increase to \$12K Single, \$18K HOH, and \$24K MFJ. This may help mid-level earners who do not own a home or own a home with small mortgage and property tax. (1040 L. 40, if you do not itemize or if Itemized Deductions are below these amounts).
- Personal exemptions will be wiped out! This will seriously reduce the benefit of the larger standard deduction. For year 2017, personal exemption is \$4,050 for each member of your family. You, spouse, and 2 children will get \$16,200 for this (1040, L. 42). If you have high income, your amounts are lower as exemptions get phased out at a certain level. The phase-out will also be repealed, since there will be no exemptions.
- Despite all the talk, there are still 7 tax brackets, ranging from 10-37%. You could end up ahead on this. This info will most likely be all over the news next week so I am not making a rate chart here.
- Many of the above things are indexed for inflation annually. Historically, it has always been on CPI. One of their little tricks is that they are now going to use something called “Chained CPI,” which will ultimately yield them more tax paid.
- Despite anything you heard a couple weeks ago, the exclusion for sale of home remains the same as current law in both amounts and number of years.
- All miscellaneous Itemized Deductions (Sch A, L. 27) are repealed.
- Medical stays in, and will reduce the threshold of 10% of AGI to 7.5% for 2017 and 2018. This is a good thing. It will then revert back to 10%.
- Deduction for paying alimony and income being taxable to the recipient will both be repealed. To give divorcing couples time to plan and assess, it will only apply to divorce or separation instruments executed after December 31, 2018. If you are divorcing, be sure your attorneys become up to date on this fast as it will effect community property asset allocation.
- Estate tax is not repealed, but for decedents passing after 12/31/17, the exclusion will be doubled. This will mean that decedents worth less than around \$11 million will generally not be required to file an estate tax return (Form 706, essentially a death tax return).
- Obamacare remains in place for now, except after 2018, meaning in tax year 2019, there will no longer be a penalty for individuals failing to have coverage (AKA the “individual mandate”).
- Energy tax incentives, including plug-in vehicles, seem to be remaining in place for now.
- Pass-Through business: On the individual level, this will affect anyone who is in a Partnership, LLC, or S Corporation. **Interestingly enough, it will also affect sole proprietors who file Schedule C.** This is one of the items that is pretty complex and that will involve education during the year for practitioners to be able to project. There will be a 20% “discount” on the income subject to tax, which would be the net profit on your Sch C or the profit passed to you on a Form K-1 from your entity. There will be a relationship between the amount of income from your pass-through business, and whether the deduction applies to you or not. I do not have the figures which would allow a projection yet. Your SE Tax for Sch C will still based upon the full profit.
- Child Tax Credit is temporarily increased from \$1,000 to \$2,000 for qualifying children.

## General Tips

- Watch out for “Kiddie Tax.” If your child who is under age 19 or is a full-time student under 24 (as of 12/31/2017) has interest and dividend income exceeding \$1,050 they must file a return. If total investment income exceeds \$2,100, they must pay tax at your rates, which involves a complex form added to their return which cannot be completed until I do your return. Please note that the term “investment income” includes gross proceeds from securities sales, even if there was no gain or a loss. If some of you do the returns for your children yourselves, or your children do them themselves, you may have to coordinate their taxes with me. There may now be an additional layer of difficulty in your child’s return due to the Affordable Care Act (Obamacare).
- If you are on Medicare, be aware that beginning in April 2017, Medicare will begin issuing new ID numbers which do not include your SSN! I have been saying for 20 years that it is really stupid that they base the Medicare # on people’s SSN. I guess they finally figured it out. You will receive a new card and should provide it to all your doctors. There will a grace period for the changeover so that your charges will not be denied if the doctor does not use your new number. If you have elderly relatives, you may want to give them a heads up on this, so they do get nervous when they receive the letter.

If you think you are going to make more money next year, you may want to accelerate income and postpone deductions. If you think you made more this year, (or just want to lower your 2017 taxes as much as possible) you want to accelerate deductions now, get as many of them as you can, and postpone income. With this in mind, here are some ideas for reducing 2017 taxes:

### Itemized Deduction Filers

This category includes just about all homeowners with a mortgage. If you are not sure, check your prior year’s return to see if it included a form called “Schedule A.” [Please see the additions about the new tax law in this section.](#)

- Pay the January mortgage payment in Dec. Mail it or create online payment well before the end of the year, or do it in person at a branch if the bank is local. It has to be posted on the lender’s books by 12/31 for you to get credit. If you did this last Dec., you have to do it again just to end up with 12 months of mortgage interest! [Only indebtedness to buy, build, or improve will be allowed beginning in 2018. There will be no more deductions for equity debt. This relates to the mortgage tracing previously mentioned and often discussed with many of you. Furthermore, on any loans incurred after 12/15/2017, the limit for allowed debt to be able to deduct interest upon will be \\$750,000. Current law is \\$1.1 million including \\$100K equity debt.](#)
- [It is no longer recommended to consolidate personal or credit card debt into home equity debt. Equity debt will not be deductible after 2017. If you have large equity debt you may want to try and pay it down if you depend on that deduction. If you refinance your first and add your equity debt to it, it still is equity debt and will not become deductible. I will trace it and remove it from your deduction.](#)
- Pay the Feb. installment of Property Tax in December. Remember, it doesn’t matter what year the tax is for, but when you write the check. This could be especially valuable if your 2016 Schedule A, L. 9 is greater than \$10,000. Also see next bullet. On your property tax statement, this is called 2017-2018 payment #2. *Important – see bold note at end of this section re AMT. [This is still OK for 2017 if you are not in AMT. If you had Form 6251 in your 2016 tax return, and your](#)*

income situation is about the same, do not do this. There may be a small subset of AMT payers who can still benefit, but that would require specific projection by me.

- Please remember that due to the property tax fiscal year, you pay two different amounts during each year, based upon two different payment coupons. Many people seem to bring one coupon in and say they paid that amount twice. This leads to more wasted time. Know exactly what you paid and provide me the correct amount. I would very much like to see your property tax statements. Beginning in 2018 tax year, the total of state and local tax plus property tax which you will be allowed to deduct on your Schedule A (2016 Sch A, L. 9) will be limited to \$10,000. Sales and use tax may be substituted for state income tax and be combined with property tax instead. I advise all of you to look at this line on Schedule A and be aware of what you will lose in a year.
- If you are an estimated tax payer, pay your 4<sup>th</sup> Quarter CA 2017 estimated payment (normally due 1/15) in Dec. Pay only CA early, it doesn't do you any good to pay the Feds early. *Important – see bold note at end of this section re AMT.* Due to the state taxes limitation described in the bullet above, this is a very good strategy if you did not have Form 6251 in your 2016 return and your income situation is about the same for '17 as it was for '16. **CRITICAL – DO NOT ATTEMPT TO PRE-PAY 2018 TAXES IN 2017 TO GET AN ADDITIONAL DEDUCTION. IT SPECIFICALLY ILLEGAL UNDER THE NEW LAW.**
- If you are planning any charitable contributions, make them before year-end. The law on contributions has become quite strict. Under the new rules:
  - **You must have proof of any gift**, via a cancelled check, bank record, or letter from the charity. In order for me to have due diligence on this, you will have to check the question in my organizer related to it as a “yes.” You should have all documentation in your possession. I do not need to keep it or even see it if you assure that you have it, but if the donation is \$250 or greater, I want a copy of the document. **Undocumented donations > \$249 will not be claimed!**
  - Charitable organizations: This link is also posted on the Philtax website on the links page, so if you cannot find this newsletter, try to remember that you can get it there. IRS has now created a page on their website which makes it easier to check if an organization is a recognized charity and if a deduction for contributing may be claimed: <http://www.irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check>
  - **You may use a credit card to make a donation by 12/31, pay the bill next year, and receive credit for 2017. Make sure to print your confirmation showing it to be in 2017. If you want to play it smart, try to make all by the 26<sup>th</sup> or 28<sup>th</sup>, because it must post to your account by the 31<sup>st</sup>.**
  - Donations of used clothing and household items will not be allowed unless the items are in “good” condition. Donations of items of minimal value like socks and underwear will not be allowed. I suggest you make a spreadsheet listing the thrift store value and specifics of all items you donated. You can get an idea of thrift store value at the web sites of Goodwill or Salvation Army. Be sure to have a receipt for each donation. If you give anything away you consider to be worth over \$100, I suggest taking a picture (I do not need the picture). If I feel you do not have proper substantiation, I will not deduct the donation, or I will reduce it.
- Do not forget your volunteer charitable deductions. Any telephone costs, supplies you bought the organization, parking, tolls, and mileage to and from your volunteer activities.
- If you donate a vehicle to a charitable organization in 2017, be sure to contact me early in tax season. Make a note of the mileage, equipment, and condition. It cannot hurt to snap a photo of the vehicle. I suggest going to <http://www.kbb.com> and running a “private party” blue book, and printing it out. The less of the proper information you have available, the more billable time will

be used. The amount of the allowable deduction will usually be the amount the charity sells the car for. They will usually provide you with a tax document, Form 1098-C. I will need this form.

- Donations may become less valuable as a deduction in 2018, as less people will itemize due to the wiping out of so many other itemized deductions. You may want to accelerate giving this year and reduce next year.

**Please note that if your tax return generally includes a Form 6251, Alternative Minimum Tax (AMT), some of the above recommendations may not suit your needs. Planning for AMT is extremely complex and requires interaction between yourself and me, and projections using software.** AMT for individuals is not being repealed. It remains in the code. However, the indexing for who is subject to it will be raised by a large margin. Some of you who are used to paying it may be able to slide out of it for year 2018. I regret that I will be unable to do any planning around 2018 AMT until at least next summer.

### **Business Owners**

Some crucial information about 1099s: Some people seem to be challenged when it comes to gathering the information and reporting 1099s to folks who have been paid \$600 or more for performing a service for your trade or business. This includes the landlord for your business premises. **Schedule C has a question on top of the form asking if you are claiming expenses for which you should have issued a 1099 and whether or not you did issue it.** The wrong answer combination will get you an IRS correspondence audit at a minimum. IRS auditors are asking to see 1099s for substantiation of any expenses for outside services or subcontractors. They may not allow deductions without proof of 1099 filing. Franchise Tax Board is going one step further. They have informed us that in any audit of a business, they will ask for the 1099s to substantiate any payments made. If 1099s cannot be produced, even if you have your cancelled check and an invoice from the provider, the deduction will be disallowed. Reminder, I must have all your 1099 info no later than January 15<sup>th</sup> if I am to create 1099s for you. There will be NO extensions on this deadline this year. If we do not prepare your 1099s, and you have any expenses for independent contractors, I will want to see proof of you having filed 1099s or I will not be able to take the deduction.

Both IRS and EDD (the CA Employment Development Dept.) have rolled out huge audit programs on employee classification. They are going after those who classify workers as independent contractors who may actually fall under the description of what constitutes employees. If you hire a lot of 1099 people, you could fall into this web. Allow some extra time to discuss this. If one of these audits should turn against you, ramifications will be expensive and unpleasant. If that isn't scary enough for you, the Department of Labor is also showing up unannounced and demanding to interview workers on premises.

Be aware that IRS can demand QuickBooks files in an audit. Contact me directly if you want more information on this or want to exchange ideas.

Equipment, equipment, equipment! Buy anything you need before year end. You can use a credit card or loan to make the purchase, pay later, and take advantage of the write-off this year. Federal law allows first-year expensing (Section 179) of up to \$510,000. CA remains at \$25,000 and is unlikely to ever conform. Be sure to buy it early enough to have the credit card company post it in 2017.

- Bonus depreciation – 50% bonus depreciation is available through 9/27/17 (on new, not used assets), and 100% bonus depreciation is allowed from 9/28/17 through 12/31/2022 (no restriction on used assets). This is separate from Section 179, and can be used on purchases in excess of the

§179 spending limit, which will not affect any of us. In some rare cases, it may be strategically better for me to choose bonus depreciation. CA does not conform to bonus depreciation.

- If you are considering a new business vehicle, which will be used greater than 50% for business, special breaks continue. **Please note that these breaks are only for new, not used, vehicles.** The breaks are even larger if you purchase a vehicle with a “gross vehicle rating” in excess of 6,000 lbs. (most large trucks and SUVs – the GVR is usually listed on the door jamb). Please call me to discuss your options if you are thinking of this, because there are many elements to it. **2018: SUV rules the same, larger potential depreciation than 2017 on other vehicles under current law.**
- If you have done some work you have not billed for yet, you can postpone invoicing until next year.
- *Warning to cash basis taxpayers:* If you receive a check this year for work you have performed, and think you can hold it and not deposit it until 2018, forget it. You have constructively received the income in 2017. It also may be included on a Form 1099 which you receive for 2017.
- *Another cash basis warning:* If you invoice someone in 2017, and they do not pay you until 2018 (when you receive the check is what counts), do not count this as income in 2017, even though you have created an invoice in 2017. If they write you a check dated in 2017, they are going to 1099 you for 2017 in Jan. 2018, even if you did not receive the money in 2017. Many people write a lot of checks on Dec 30<sup>th</sup> and 31<sup>st</sup>. **This is something we would need to discuss in further detail, as it could cause a discrepancy between income claimed and 1099s reported.** Again, this advice is for cash basis taxpayers. If you are on accrual, it works differently. Also be on the lookout for a 1099-K if you accept credit cards. This could create multiple issues which have to be discussed. You must provide me with this form. You may have multiple versions from different companies who have processed credit cards on your behalf. I will need a breakdown of your payment card sales as opposed to other sales when you list your gross income.

Make sure you contribute to your retirement accounts. If you have not started a retirement plan yet, you should consider taking advantage of this, both for tax and real-life purposes. Profit Sharing or Money Purchase plans must be established by 12/31, with contributions by the due date of your return, including extensions. IRA contributions (including Roth IRAs), by 4/15/18, SEPs by the due date of your return, including extensions. SIMPLE plans (for small employers) must be established by Oct. 1<sup>st</sup> of the year the plan is to be adopted, so if you are thinking of doing one, it will not be able to start before 2018. This is a complicated area, so be sure to call if you have any questions. Very important note to sole proprietors with SIMPLE plans: Your “elective deferral” for year 2017, maximum \$12,500 or \$15,500 with over 50 catch-up, must be contributed by **January 30, 2018**. Please note that you must have a profit in your business of at least the amount you are deferring. You will then have till the return due date plus extensions to contribute the employee matching amounts for both yourself and your employees. IRS has become aware that some people were not making their elective deferrals in time and is routinely checking this in audits.

## Employees

- Getting a large bonus or commission? See if your employer can hold off on paying you until next year.
- If a 401(k) or 403(b) plan is available, make sure to participate. Try to maximize your contribution as much as possible, especially if your employer matches. You have to realize what a great situation employer matching is. It is like getting free money!
- If you changed jobs during the year, be careful of possibly over-contributing to the 401(k). Get your final pay stub from the previous job or jobs, and see the HR folks at your new job, or else call me for a consultation.



- There is also now a plan called a Roth 401(k), which will be **optional** for employers to offer. Be sure to hold on to all the documents they send you, as each custodian and employer will have different requirements.

## Stock Market

- You are allowed to write off capital losses beyond your gains up to \$3,000. Examine your trading, and if you have any gains, sell off enough losers to offset those gains and exceed them by at least \$3,000. Any amount above the \$3,000 is carried forward for use in future years.
- You can also use losses from the stock market to offset gains from other capital investments, like real estate or collectibles, so if you have sold a building or collectible for a gain, you can sell some stocks at a loss to help offset that gain.
- Be careful of purchasing mutual funds in a taxable account before the end of the year. Many mutual funds give distributions in December, and you may end up with a taxable capital gain distribution on a fund just purchased which you didn't really make a gain on. If you are thinking of purchasing a mutual fund in a taxable account, check the fund company to see the timing of distributions. Try to buy after the distribution date.
- Watch out for wash sales. Wait at least 31 days to reacquire an identical security which is sold at a loss before 12/31.
- CA tax-free bonds and bond funds: Be aware that although the interest received on these bonds is fed and state tax-free, they are a capital asset just like any other security. Therefore, when sold, redeemed, or called, there will be a reportable taxable transaction, which could be either gain or loss. We will need the cost basis and acquisition date, just as with any security.
- **There are no changes to capital gains or Qualified Dividends taxation under the new law.**

## Mileage Tracking

A couple years ago, I decided I wanted a more accurate way to track my mileage in my own life. I did a lot of research on Smartphone apps and found one which looked pretty cool, so I started a trial of it. I really liked it, so I decided to sign up for an unlimited account. The free account only allows 40 trips a month and it tracks everything in the background, so that gets exceeded easily unless I want to manually make it stop and start tracking, which would be a hassle.

My app, MileIQ, is offering a 20% discount on unlimited subscriptions, which are normally \$60/year, to clients of tax professionals. Your discount code is PFIE105A. Open a free account, then **upgrade on the dashboard in your browser, not through the app on your phone**. The promo codes do not work in the mobile apps. Here is a signup link: <https://www.mileiq.com/invite/IEQKR>. You can also track your charity and medical miles on it, there is a lot of customization. It is available for iOS and Android. You can set up the free account in the phone app, and then go to a computer (or possibly browser in your phone or tablet) to upgrade. Here is a link to instructions:

<https://support.mileiq.com/hc/en-us/articles/204480785-How-to-Redeem-a-Promo-Code>

## Use Tax

If the BOE made you register as a Use Tax "Registered Purchaser" (businesses, including sole proprietors), you are required to continue filing a Use Tax return each year. The 2017 return will be due **4/15/2018**. You must file even if you had zero purchases subject to Use Tax. If you received a letter in mid or late 2017 and disregarded it, please call me. This return can only be filed online with the special account code

you were given. There are exceptions, but I will not cover them here. Note – the BOE has now been disbanded and replaced. See next paragraph about the new agency. It will be paid to them instead.

**For the rest of you (individuals and non-business purchases), the following applies: I have been warning you about this for years.** A simple explanation is, that when you buy something on the internet which is shipped from another state, you may not be charged CA sales tax. In a nutshell, use tax is sales tax you must pay on stuff from out-of-state that has not been paid yet. **The 2017 CA tax return will include a line for the Use Tax amount, with 2 checkboxes if the amount on the Use Tax line is zero.** One box will be “No Use Tax is owed.” The second will be that “You paid your Use Tax obligation directly to the CDTFA.” Note – this is the new agency, CA Dept. of Tax & Fee Administration, that replaced the State Board of Equalization, which has been disbanded. I assure you that they be equally ruthless. If you wish to pay it yourself and check that box, the use tax for 2017 is due on 4/15/18. Here is a link to the info page on CDTFA website: <http://www.cdtfa.ca.gov/taxes-and-fees/use-tax.htm#Personal>. Hint, if you are doing it directly, me giving you this info is the only thing I am involved in. No questions will be answered except about the basic rule, which is, either you declare it on your tax return or you do it directly with the state. Reminder that you sign your E-file document under penalty of perjury.

You still also have an option, via one of the organizer questions, to include an automatic calculation of use tax into your return. **If you bought under \$1,000 of out-of-state goods**, you may use this method. It is based upon your income. If your CA AGI is under \$100,000, you will not pay more than around \$39, \$100,000 CA AGI, \$57. For \$200,000 CA AGI, \$77. This means that if you know you bought over \$1,000 of goods you failed to pay tax on, you will have to come up with a figure of goods bought to give me. FYI – supplements are subject to sales tax, so if you are like me and buy a lot of mail-order supplements, you will have to track the purchases from companies which do not charge tax.

### **Last Things...**

I dislike being heavy-handed on all this, but there are a small number of folks, who for one reason or another, continually waste valuable time. This puts us under pressure and causes us to lose efficiency, which ultimately impacts everyone. All wasted time due to inability of clients to follow instructions will be billed. Take ownership of your tax issues and be more involved. Remember, time is the one constant. The length of a minute is the same for you and I as it is for Warren Buffett or the President.

A short list (good for all) to get you started:

- ALL** official tax documents. If I have to ask for 1098s, 1099-INT etc., you waste more time. I do not care if you filled in the organizer, I want the docs.
- If I give you “homework,” or list items you need to provide, give them to me within 72 hours and do not provide them piecemeal.
- If we are having a phone meeting or in-person meeting, have your questions organized.
- Note your mileage as of 12/31 if you use the car for business. Also figure out your business miles. If you find writing down your odometer too challenging, please get an oil change or a service of some kind in the first 10 days of January each year, and bring me the repair receipt. We still need to know your total miles driven, even if you are using MileIQ or another tracking app, so please log the odometer reading.
- You must return your organizer, even if you did not fill out the tax data.**
- You must sign the engagement letter and fill out the Y/N questions, even if not filling in the remainder of the organizer. I will not start your return without it.**

- **Warning – the fee for not complying with the two bullets above is \$50 and there will be ZERO exceptions to incurring the fee if you did not bring the documents.**
- ❑ If you bought or sold any real estate, please provide the final escrow statement by Feb. 15<sup>th</sup>.
- ❑ If you refinanced any real estate, please provide the final escrow statement by Feb. 15<sup>th</sup>.
- ❑ If you text, check email, or talk on your phone during a meeting with me, you will be billed double time while you are doing it. This will only be excused for family emergencies, which do not include things about what time dinner is or going to the store.
- ❑ If we write off your health insurance, know exactly how much you paid in 2017.
- ❑ If you pay property tax, bring the statements and be sure to bring the amount of both payments made, which should be different.

**Please see variations on figures of certain items between 2017 and 2018 on the following page.**

## NUMBERS TO KNOW

ITEM	2018	2017
Standard mileage rate	54.5 cents/mile	53.5 cents/mile
Medical or moving miles	18 cents/mile	17 cents/mile
Miles driven for charities	14 cents/mile	14 cents/mile
IRA/Roth IRA contribution	\$5,500	\$5,500
Age 50+ “catch-up” allowance	\$1,000	\$1,000
Social Security Tax Base maximum	\$128,400 (this is a revision from 11/27/17)	\$127,200
Social Security COLA Increase	2.0%	0.30%
Basic Medicare Part B Premium (may be higher depending on your prior year income)	\$134	\$134
401(k), 403(b) & 457 deferrals	\$18,500	\$18,000
“Catch-up” for 401, 403, & 457	\$6,000	\$6,000
Defined contribution plan limits (includes SEP-IRA)	\$55,000	\$54,000
Compensation limits to determine above item	\$275,000	\$270,000
Compensation triggering SEP contribution requirement for employees	\$600	\$600
SIMPLE IRA Deferrals	\$12,500	\$12,500
SIMPLE IRA “catch-up” age 50+	\$3,000	\$3,000
CA Disability Insurance (SDI) – Maximum wage base	\$114,967	\$110,902
CA Disability Maximum contribution amount	\$1,149.67 (Threshold and % both increased)	\$998.12 (Threshold higher, % same)
Maximum gift allowed to be given by one person to any one person without a reporting requirement	\$15,000	\$14,000

## **Be Smart About Security at Tax Time**

- 1. Beware of IRS Impersonators.** Some crooks call taxpayers to say they must settle their “tax bill.” These are fake calls and often demand payment on prepaid debit cards, gift cards or wire transfers. Also, students should know there’s no “Federal Student Tax.” If you get any unexpected calls, e-mails, letters or texts from someone claiming to be from the IRS, remember, the IRS never calls to demand immediate payment using a specific method nor will it threaten you with local law enforcement. It may be prudent to immediately show me any letters asking for money that you are unaware that you owe.
- 2. Understand and Use Security Software.** Security software helps protect computers against digital threats online. Generally, the operating system will include security software or you can access free security software from well-known companies or Internet providers. Essential tools include a firewall, virus and malware protection, and file encryption. Don’t buy security software offered as an unexpected pop-up ad on your computer or e-mail. It’s likely from a scammer.
- 3. Let Security Software Update Automatically.** Malware—malicious software—evolves constantly and your security software suite updates routinely to keep pace.
- 4. Look for the “S.”** When shopping or banking online, see that the site uses encryption to protect your information. Look for “https” at the beginning of the Web address. The “s” is for secure. Additionally, make sure the https carries through on all pages, not just the sign-on page.
- 5. Use Strong Passwords.** Use passwords of eight or more characters, mixing letters, numbers and special characters. Don’t use your name, birth date or common words. Don’t use the same password for several accounts. Keep your password list in a secure place or use a password manager. Don’t share passwords with anyone. Calls, texts or e-mails pretending to be from legitimate companies or the IRS asking to update accounts or seeking personal financial information are almost always scams.
- 6. Secure Wireless Networks.** A wireless network sends a signal through the air that lets it connect to the Internet. If your home or business Wi-Fi is unsecured, it also lets any computer within range access your wireless and potentially steal information from your computer. Criminals can also use your wireless to send spam or commit crimes that would be traced back to you. Always encrypt your wireless. Generally, you must turn on this feature and create a password.
- 7. Be Cautious When Using Public Wireless Networks.** Public Wi-Fi hot spots are convenient but often not secure. Tax or financial information you send through websites or mobile apps may be accessed by someone else. If a public Wi-Fi hot spot doesn’t require a password, it’s probably not secure.
- 8. Avoid E-mail Phishing Attempts.** Never reply to e-mails, texts or pop-up messages asking for personal, tax or financial information. One com-mon trick by criminals is to impersonate a business such as your financial institution, tax software provider or the IRS, asking you to update your account and providing a link. They ask for Social Security numbers and other personal information, which could be used to file false tax returns. The sites may also infect your computer. Never click on links even if they seem to be from organizations you trust. Go directly to the organization’s website. Legitimate businesses don’t ask you to send sensitive information through unsecured channels.

**We hope you and your loved ones are having a wonderful holiday season.**

If you have moved and I do not know it, please provide me with your new address ASAP.

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Please try and remember to make any checks you are sending me out to "Philtax Inc", "Philtax", or "Philip Fiegler, EA". Please try not to make them out to "Phil Fiegler" or "Philip Fiegler."  
Thanks.

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# Tax Appointment Worksheet

The tax appointment worksheet is a tool to help you gather the needed information for new and returning clients for the 2017 tax year. This year's worksheet has been updated to reflect the changes in tax law.

In 2017, all medical will be subject to the 10 percent of AGI limitation, regardless of age. As of press time, there has been no change in the Affordable Care Act. The health insurance requirements are the same as in 2016.

EVENT		DOCUMENTS OR INFORMATION NEEDED
<b>1</b>	<b>Married, divorced, or separated during 2017</b>	<ul style="list-style-type: none"> <li>Married – prior-year return of both spouses</li> <li>Divorced – finalized date; copy of the divorce decree</li> <li>Separated – copy of the separate maintenance agreement</li> <li>Community property income allocation</li> </ul>
<b>2</b>	<b>Birth or adoption</b>	<ul style="list-style-type: none"> <li>Social Security cards and adoption papers</li> </ul>
	<b>Adoption credit</b>	<ul style="list-style-type: none"> <li>Expenses date and amount, date of adoption, special needs certification</li> </ul>
<b>3</b>	<b>Death of child or spouse</b>	<ul style="list-style-type: none"> <li>Date of death</li> </ul>
<b>4</b>	<b>Additional members of household</b>	<ul style="list-style-type: none"> <li>Date of occupancy and relationship</li> </ul>
<b>5</b>	<b>Job change</b>	<ul style="list-style-type: none"> <li>Start date</li> <li>Name of new employer</li> <li>W-2s from new and old employers</li> </ul>
<b>6</b>	<b>Unemployment</b>	<ul style="list-style-type: none"> <li>Unemployment form</li> </ul>
<b>7</b>	<b>Retirement contribution</b>	<ul style="list-style-type: none"> <li>Type of plan</li> <li>Amount of contribution</li> </ul>
<b>8</b>	<b>Retirement distributions</b>	<ul style="list-style-type: none"> <li>Form 1099-R</li> <li>Rollovers</li> <li>RMD information if 70½ or older</li> </ul>
<b>9</b>	<b>Social Security benefits</b>	<ul style="list-style-type: none"> <li>Form 1099-SSA</li> </ul>
<b>10</b>	<b>Sale of stocks, bonds, etc. (including mergers)</b>	<ul style="list-style-type: none"> <li>Form 1099-B or other sale documents</li> <li>Basis or original costs</li> </ul>
<b>11</b>	<b>Purchase of stocks, bonds, etc., personal residence, or other real estate</b>	<ul style="list-style-type: none"> <li>Purchase documents, closing papers</li> </ul>
<b>12</b>	<b>Inheritance</b>	<ul style="list-style-type: none"> <li>Will, K-1 from the estate</li> <li>Basis information</li> </ul>
	<b>Gifts made Gifts received</b>	<ul style="list-style-type: none"> <li>Cash or property in excess of \$14,000 per person</li> <li>Description of property given, basis, donee name</li> <li>Property – basis of donor</li> </ul>
<b>13</b>	<b>Trade of any property (real estate, vehicle, etc.)</b>	<ul style="list-style-type: none"> <li>Date of trade, property given up and property received, basis, and FMV</li> <li>Qualified intermediary sales agreements or closing papers</li> </ul>
<b>14</b>	<b>Start or end a small business (Schedule C, LLC, S or C Corp, Partnership)</b>	<ul style="list-style-type: none"> <li>Formation or termination dates</li> <li>Property contributions or distributions</li> <li>K-1s, if applicable</li> </ul>
	<b>Business income/ expenses</b>	<ul style="list-style-type: none"> <li>1099-Ks received for use of credit cards</li> <li>Inventory numbers, if applicable</li> <li>Mileage information</li> </ul>
<b>15</b>	<b>Lawsuit settlements</b>	<ul style="list-style-type: none"> <li>Date received</li> <li>Reason for the settlement</li> <li>1099-MISC</li> </ul>

<b>16</b>	<b>Rental property</b>	<ul style="list-style-type: none"> <li>• Income</li> <li>• Expenses</li> <li>• New property purchased</li> </ul>
<b>17</b>	<b>Prizes</b>	<ul style="list-style-type: none"> <li>• Form 1099-MISC</li> <li>• Value of prizes not included on Form 1099-MISC</li> </ul>
<b>18</b>	<b>Lottery or gambling winnings</b>	<ul style="list-style-type: none"> <li>• Total amount won whether on W-2G or not</li> <li>• Total amount of losses</li> </ul>
<b>19</b>	<b>Health insurance, medical, dental, or drug expenses</b>	<ul style="list-style-type: none"> <li>• Health insurance premiums</li> <li>• Post-tax payments</li> <li>• Totals of other medical, dental, and drug expenses. If the health insurance is pre-taxed (i.e. cafeteria plan, Sec. 125, POP), premiums have already been deducted from the wage</li> <li>• Health Savings Account (HSA) information</li> </ul>
	<b>Medical miles (17 cents per mile)</b>	<ul style="list-style-type: none"> <li>• Total medical miles driven January–December</li> </ul>
	<b>Health insurance coverage verification</b>	<ul style="list-style-type: none"> <li>• Form 1095 A, B, or C must be received from the marketplace, the insurance carrier, or your employer for every person included on the tax return.</li> </ul>
<b>20</b>	<b>State taxes income, property taxes paid, sales tax paid on vehicles, motorcycles, or homes</b>	<ul style="list-style-type: none"> <li>• Prior year's income tax return</li> <li>• Property tax bills</li> <li>• Closing papers from the purchase or sale of property</li> <li>• Letter from the state regarding any change on a prior-filed return</li> </ul>
<b>21</b>	<b>Refinance a home</b>	<ul style="list-style-type: none"> <li>• Closing papers with amount borrowed</li> <li>• Form 1098</li> <li>• Description of use of money</li> </ul>
<b>22</b>	<b>First-time homebuyer credit</b>	<ul style="list-style-type: none"> <li>• Credit no longer available</li> </ul>
	<b>Recapture/repayment 2008 credit</b>	<ul style="list-style-type: none"> <li>• Sale or change in use</li> <li>• Record of amount repaid—Year 8 of 15</li> </ul>
<b>23</b>	<b>Charitable contributions of money, property, or out-of-pocket expenses</b>	<ul style="list-style-type: none"> <li>• Date and type of contributions</li> <li>• Knowledge that receipts from the organizations have been received</li> <li>• Statement regarding whether goods and services were received for donation</li> <li>• Mileage log for charitable work</li> <li>• Form 1098-C for vehicle or boat donations</li> </ul>
	<b>Charitable miles (14 cents/mile)</b>	<ul style="list-style-type: none"> <li>• Total charitable miles driven</li> </ul>
	<b>Transfer of IRA to charity</b>	<ul style="list-style-type: none"> <li>• Brokerage statement showing transfer (1099-R)</li> </ul>

<b>24</b>	<b>Job-related expenses</b>	<ul style="list-style-type: none"> <li>• Meals, lodging, and miscellaneous expense amounts for items related to employment</li> </ul>
	<b>Business miles (53.5 cents per mile)</b>	<ul style="list-style-type: none"> <li>• Total miles driven per vehicle: January–December</li> <li>• Business miles driven per vehicle: January–December</li> </ul>
<b>25</b>	<b>Education expenses</b>	<ul style="list-style-type: none"> <li>• Form 1098-T for parents or children; if the child is a student, the form will come to the child.</li> <li>• Actual expense record to verify expenses for credit/deduction purposes</li> <li>• Financial transcript from school needed to show when actual expenses were paid</li> </ul>
	<b>Student loan interest</b>	<ul style="list-style-type: none"> <li>• Interest record for student loans</li> <li>• Form 1098-E</li> </ul>
<b>26</b>	<b>Child or disabled spouse care</b>	<ul style="list-style-type: none"> <li>• Name, address, and ID number of the day-care provider</li> <li>• Amount paid to the provider (if the provider comes into your home, a W-2 may be required)</li> </ul>
<b>27</b>	<b>Energy credit</b>	<ul style="list-style-type: none"> <li>• Information regarding the purchase of solar, fuel cell, or small wind energy property business or residence</li> </ul>
<b>28</b>	<b>Bankruptcy filing</b>	<ul style="list-style-type: none"> <li>• Date filed</li> <li>• Bankruptcy papers—property rejected/returned by court</li> </ul>
<b>29</b>	<b>Debt forgiveness or abandonment of property: (principal residence debt forgiveness exclusion no longer exists)</b>	<ul style="list-style-type: none"> <li>• Form 1099-A for abandonment</li> <li>• Date property was taken by the bank or sold in foreclosure</li> <li>• Form 1099-C for cancellation</li> </ul>
<b>30</b>	<b>IRS or state communications</b>	<ul style="list-style-type: none"> <li>• Letters, additional taxes paid, changes in prior-year returns, installment agreements, or offers in compromise</li> </ul>
<b>31</b>	<b>Foreign investments or holdings</b>	<ul style="list-style-type: none"> <li>• Any foreign accounts?</li> <li>• Any greater than \$10,000?</li> <li>• Foreign business interests or stock of \$50,000 or more?</li> <li>• Signature authority over foreign accounts?</li> </ul>

## About the Author

**Mary R. Mellem, EA**, is a tax professional from Green Bay, Wisconsin, who has been in the tax business for 33 years. She and her husband David operate Ashwaubenon Tax Professionals. In addition to servicing 1,200 tax and accounting clients during the year, their business includes tax consulting for other tax professionals as well as teaching tax seminars around the country. To contact Mary email her at [marymellemea@yahoo.com](mailto:marymellemea@yahoo.com).