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Welcome to the Final Newsletter of 2016!

The last newsletter I sent out I wrote a couple of days before the election. In that I said by the time you read that letter we would know who would be our next President and I was all set to give you what Hilary wanted to see for our future in taxes. It may be partly that we just live in a deep blue state but I was shocked at the result of the election. Several clients predicted this but I have to be honest-I just didn't see it happening. I will go over this more later on. I also said I was going to delay this newsletter until now because I wanted to wait until after I went to all of my seminars to make sure I didn't miss any tax changes. If you called our office in the last 3 weeks you already know I have been out more than in. Unfortunately all of the "exciting" CPA's I have been listening to have only confirmed my thoughts that there just is not a lot that happened to taxes in 2016. There are some and I will go over those but they are few and far between. But this time I am going to lead off with the obvious.

The Trump White House

Back in June the House Republicans issued two reports both entitled "A better way". I didn't even look at these because after all President Hilary was just going to laugh this right out of the Oval office. Now guess what-there is a real good chance what the House Republicans wrote will become law. Especially since the Trump proposals almost match. In the places they do match my guess is sometime 2017 we will see them become law.

So starting off here are the Trump tax proposals.

- 3 tax rates of 12%, 25%, and 33%.
- Capital gains remain intact.
- Affordable Care Act mostly repealed.
- Alternative Minimum Tax repealed. I have to interject here. I doubt this will occur. With what I wrote so far 90% of my clients should be doing leaps of joy but I am just not sure Trump realizes just how much AMT brings into the Treasury. It is so much I just can't see our taxes without them. Unless of course Trump's plan is to really run the federal government like a business. But wait- I am getting too excited as I must continue
- Standard deduction up to 30k for joint return and 15k single.
- Personal exemption and Head of Household states eliminated.
- A cap on itemizes deductions.
- Estate tax repealed.

- Child care credit replaced by a deduction on page 1 of the 1040 with additional tax breaks to low income families.
- Established Dependent Care accounts with a match contributed to the account from the government.
- For businesses a straight tax rate of 15% and elimination of AMT.

Now if I listed the House Republicans June reports on tax before you would notice right away. THEY ARE ALMOST THE SAME as Trump's proposals. There are some differences but with both of them in so much agreement you should very much expect to see some of these when we do your 2017 tax return. The House report also goes on to talk about reform of the IRS and let me tell you from what I have seen this year in all of the errors and incorrect notices-this is badly needed. How this is all going to shake out is still anybody's guess. But I can tell you is I very much believe taxes in 2017 will be very different than what you will see in 2016.

What to Do

Now you have to understand especially since many of these are in direct contradiction to the advice we normally give, you do have to weigh this with just how much you believe these changes will actually occur. We think many will but then again- I am using my crystal ball.

Defer income to 2017 if you are in a tax bracket above 33%. I am not sure I have ever said this before but then again these are strange times. I also have heard companies are already jumping on this band wagon and are going to delay bonuses until 2017. If you are in your own business delay billing until 2017 as long as you don't risk collection by doing so. If you are about to take your first required minimum distribution from your IRA (age 70 1/2) delay that until 2017 remember you need to take that before April 1st and still take your regular 2017 RMD before 12/31/17. If you are thinking about converting IRA's to ROTH IRA's (not a something I am very fond of) delay that until 2017.

Defer property sales until 2017. Trump and the house agree the 3.8% tax these sales should be repealed so if nothing else happens to capital gains you should save 3.8% by waiting. Even changing the sale to an installment sale should help here.

Also with the increase of the standard exemption, if you are close the 15/30k amounts on your schedule A, 2016 would be the year to make those charitable contributions and pay the medical bills. You may lose the benefit of this as we might just take the standard deduction for you in the future.

Please note- there is so much here you will need to talk to me. If you call the office leave a message if I am not there. Emails I check every day. Time is short before the end of the year so please do get your questions answered. Also this is Dorothy's and my 10th anniversary and we will be gone after the 28th. Please make sure you talk to us before this because we are going out of the country and Email may not work

Identity Theft

I am going to start going over things quickly because there is a lot to look at. ID theft has been one of the big issues all government agencies have worked on in 2016. The one change that affects my practice is I will now have to take a copy of some form of ID to make sure you are who you say you are. If you have gone to a doctor's office recently you have already experienced this. I am here to tell you this is now something we are required to do.

Due Dates Changed

If you have filed a pass thru return like a 1065 the due date will now be March 15th up from April 15th. Also foreign bank account and foreign financial holding reports (FBARS and FINCEN) are now due 4/15 up from June 30th.

W-2's

Last year there was a pilot program of putting a rather lengthy security code on your W-2's. It worked and this year it is estimated over 50 million W-2's will contain the code. It is not clear how this will affect e-filing for this tax season but it might-so if this code is on your W-2 it will now go into our system.

Parsonage Allowances

I have many clergy in my practice. If you are a member of the clergy, you didn't become a clergy to make a ton of money. To help clergy compensation for this part of their pay that can be allocated to housing expenses goes untaxed. Well a group of atheist didn't like this so they sued over it. The judge dismissed the case because the group did not have standing. The atheist group was not done after this defeat and filed tax returns claiming this income was non-taxable. Guess what? The IRS didn't like this and disallowed the deduction. Now the group has sued the IRS. With all anti-discrimination laws we have in this country there is a real possibility this part of the tax law could be declared unconstitutional. It should be years before this is resolved but you need to be aware if you either are in the clergy or involved in a church that does this, this could be forced to change at some point.

Tax Season

The IRS has announced they will begin to accept tax returns on January 23rd 2017. The due date this year is again April 18th. April 15th falls on a Saturday and Monday the 17th is horribly timed Emancipation Day. Insane that Emancipation Day would be the day all CPA's are working 24 hours. Must be some sense of humor by our government.

Bitcoin Bombshell

The IRS has a new target and they are attacking this like they do everything else. Now I have to confess I know almost nothing about this except it does exist. Apparently the IRS feels enough is going on here that they have started to put some real resources behind them. A special task force is now set up to investigate this. One of the teams this task force is the criminal division of the IRS. A group you NEVER want to see at your front door. These are the guys that can put you in jail. Summons also have been issued to bit coin exchanges. One of the good things that came out of this report is the IRS currently feels the average taxpayer is not educated enough to know what they are doing could be a criminal violation by tax law. So one of the first emphases will be to teach taxpayers the law as it pertains to this area. Let me get

a head start on their education program-if you are doing anything thru virtual currency that would be taxable if you are using the goods old US \$-it is taxable here.

HRA's

Okay if you don't have a business you can go to sleep now. But if you do especially and if you are in our most favored way of doing business(S-Corps) you may be getting some help as all of you know because you did just get our S-Corp health insurance letter in your inbox. There is a great deduction for S-Corp owners when it comes to health insurance premiums you pay. If you remember in previous years I always asked you to pay your health insurance directly out of the S-Corp. This was because Obamacare almost eliminated the existence of health reimbursement arrangements (HRA's) that would allow you to reimburse yourself for any premium paid. The house and senate have both passed a bill to reinstate HRA's and get rid of what has become a big silly nuisance. The original law was to trying to raise revenues by tripping up small to medium size S-Corps. Tax law is hard enough to figure out without putting in intentional and well-hidden bear traps.

And Finally

I always try to finish with something stupid that happened in taxes. Here I am at the end of the newsletter and I haven't even told you the mileage rate for business travel will drop to 53.5 cents a mile and 17 cents for moving miles for 2017. There is also other small changes but to finish off we have the case of Rick and Sharon Lyerly. Rick was an attorney (I am not sure why most of these involve attorney's but) he suffered from multiple health issues so he hired an office manager to collect and give the proper information to his CPA to do the returns. After he was notified by his CPA no information was ever received that could be used to do a return, Rick found out this office manager has no clue what she was doing and he fired her and hired a new person. This person had a much better idea of what she was doing and embezzled from him and destroyed the real records to cover her crime. The net result of all this is the 2005-2007 tax return were late as the CPA got a big fat check for reconstructing all the information destroyed by the embezzler and got the return done. They were filed and paid. Then the IRS itself began to make errors by applying payments to the wrong years causing penalties to be assessed and miscalculated the proper tax. And in true IRS form, the IRS did all this right before the statute of limitation was about to run out. Rick sued the IRS. The court was sympatric to Rick's hardship and even though Rick told the IRS everything that was going on while it was going on, (not something we recommend by the way and here is why) the court said due to the lateness of the returns being filed and since the statute had passed there was nothing they could do to get Rick the relief he deserved. And the court did say DESERVED. Moral of the story-You and you alone should be the one to get your info to your beloved CPA because if you don't there is nobody out there that is going to help you.

The appointment letter will be going out shortly. Last few years the heaviest appointment times are the last 2 weeks of February and first 3 weeks of March so if you want an appt. then get your response in early.

THIS YEAR THERE IS A "PS":

PS: This really has nothing to do with taxes except it does have to do with OBAMACARE. To anyone that would listen and that is all of you that has had an appointment with me over the last 2 months, Obamacare has caused my health insurance monthly premium to go from \$457 a month to \$2100 per month for 2017. Many of my larger business has been telling me that the cost of health insurance for their employees is becoming one of the biggest problems they face. If you have an employer that pays this, the amount that is being paid does show up on your W-2 and if you look at that number you might be shocked to see just how much your company is being forced to pay to cover you. The seminars I attend bring in CPA's from all over the country and many are just like me with practices very similar to my size and make up. Therefore they are the facing the same problem I am. But 2 presenters one from Texas (Austin area) and the other from California (San Francisco area) have said hospitals and doctors in their area are offering deep discounts if you stay away from claiming these on insurance. The example used was the wife on one of the presenters thought she was having a heart attack and went to the emergency room. It turned out she didn't but the bill came to almost 25K. The hospital agreed to discount the bill almost 90% if they didn't use the insurance. That was then a cost of around \$2400 for a serious medical procedure or just over 1 month insurance premium. If the cost of insurance continues to go out of control this may be the way to beat this. Yes you MAY have an Obamacare penalty but it is very likely that is about to be history and if the medical field decides to help us patients get around insurance by a 90% discount- that is about 300K in medical procedures with my insurance cost- co pays and deductibles- before I even hit the breakeven point. 300K is more medical cost than we ever had in total and that includes a fight with cancer. Appears if we can get our doctors and hospitals to agree with this, becoming self-insured will be the way to go in the future

Merry Christmas and Happy New Year to all of you and remember we will be out of the country 12/28 and not returning until the 9th of January.

-Tom & Dorothy