

ROBERT ROWLAND CPA
ANNUAL TAX LETTER

TAX YEAR 2016

Welcome to the New Year and another tax filing. Hopefully, with a minimal effort on your part, we can get those returns accurately prepared and out of the way.

New Discount and Surcharges Last year like most (if not all) tax preparers, I had too few clients in January and February and too many clients in late March and April. As a result, towards the end of tax season the quality and timeliness of my services suffered. I need to take corrective action.

This year there will be a **\$25 discount** for any client who has an appointment or otherwise gets me substantially all of their personal tax information prior to February 20th. I recognize that you may not have the business K-1's or the final brokerage statements by February 20th, but you can provide to me everything else for this discount. This discount replaces the old Express Option discount.

Conversely, there will be a **\$25 surcharge** for any client who has an appointment or otherwise supplies to me the bulk of their information between March 20th and April 15th (and for extension returns between October 1st and October 15th).

Also I find that many times the tax preparation gets bogged down with unanswered questions if a client does not take a reasonable stab at completing the tax organizer. Unfortunately the tax law is getting more and more complex each year and the tax organizer is structured to direct your attention to all of the areas that need to be addressed. There will be a **\$25 surcharge** for any client who does not make an attempt at filling out the portions of the tax organizer that pertains to them. The tax organizer can be found on my website, RowlandTax.com under the Tax Organizer tab.

Password For Tax Returns Emailed: As a reminder, the password to get into the tax returns emailed to you from this office is the first four letters of your last name followed by the last five numbers of your social security number (no caps and no spaces).

On Line Scheduling of Appointments: To make an appointment online go to rowlandtax.acuityscheduling.com. If you include your email address when you create that appointment we will send you a reminder 24 hours before your appointment. This online calendar is purely for your convenience. If you prefer the old fashion way, you can still call Karen, 520-319-0077, and she will be happy to set you up with that appointment.

Skip the Appointment Option Instead of scheduling a meeting, you have the option to complete the tax organizer, attach the W 2's and other documents requested, include a list of questions you may have and mail, deliver, fax (520 319-0076) or email it to Robert@RowlandTax.com.

CHANGES FOR 2016

The IRS is in a never ending battle against identity theft. To that end the IRS is requiring tax preparers to get from you and your spouse **copies of your driver's license or passport**.

Individuals **without health insurance coverage** may be subject to a penalty of \$695 for each adult and \$348 for each minor child not covered or if greater 2.5% of household taxable income calculated using the standard deduction.

For 2016 for **business use of a vehicle** the mileage rate is 54 cents per mile. Again I want to stress that to support your deduction for business mileage there must be a mileage log. There are several good mileage log aps available on your cell phone.

The Arizona credit (dollar for dollar reduction of tax) for **contributions made to organizations that serve the working poor** has doubled from \$200 to \$400 for a single person and from \$400 to \$800 for a married couple. For a list of qualifying organizations see www.azdor.gov/taxcredits/qualifyingcharitableorganizations.aspx.

Also the Arizona credit for **contributions to qualified foster care organizations** increased from \$400 to \$500 for a single person and from \$800 to \$1,000 for a married couple. For a list of qualifying organizations see www.azdor.gov/Portals/0/RefundCredits/CertifiedFosterCareCharities2016.pdf

The **public school extracurricular activity credit** for Arizona has been expanded to include character education programs, testing fees for college credit, prep courses for standardized testing and CPR.

Charitable travel requires not only the receipts to back up the travel costs but also a contemporary written acknowledgement from the charity and that acknowledgement includes a description of the services provided and further if the expenditures exceed \$250 the acknowledgement provides that no goods or services were provided in exchange for the unreimbursed expenditures.

Have a **disable child** whose disability developed before the age of 26? Disabled is defined by Social Security Disability rules. Then consider an ABLE (Achieving a Better Life Experience) account. Multiple donors can contribute in total up to \$14,000 per year and the funds can be used by the disabled child for basic living expenses. The advantages; earnings are not taxable, and if the account balance is under \$100,000 the account in many states (including Arizona) will not disqualify the child from federal or state assistance programs. For more information go to www.ablenrc.org. However this plan is advantageous only if you are able to keep monies in the account for a long period of time such as a parents providing a long term fund to help when the parents are no longer around.

The **filing dates for regular corporations and partnerships** flipped. Where before regular corporations returns were generally due March 15th, starting with the 2016 returns the filing date is

now April 15th. However for partnership (and LLC) returns the filing date is being moved up from April 15th to March 15th. The March 15th filing date for S Corporations remains the same.

Also **filing date for reporting foreign accounts (FBAR)** moved from June 30th to April 15th.

Business equipment is normally depreciated over its useful life. For 2016 and thereafter, in addition to section 179 first year depreciation, any item which costs less than \$2,500 can be deducted in full in the year of the purchase.

The maximum amount subject to **Social Security taxes** remained at \$118,500.

CHANGES FOR 2017

With the control by the Republicans of not only Congress but also the presidency, expect lots of tax changes for 2017.

For 2017 for business use of a vehicle the mileage rate is 53.5 cents per mile. Again I want to stress that to support your deduction for business mileage there must be a mileage log. There are several good mileage log apps available on your cell phone.

The **medical deduction exclusion** was changed in 2012 to 10%. However, if you or your spouse are 65 years or older or turned 65 during the tax year previously you were allowed to deduct unreimbursed medical care expenses that exceed 7.5% of your adjusted gross income. However, that 7.5% medical exclusion for seniors expired on December 31, 2016 and thereafter the exclusion for everyone is 10%.

The following items expired as of the end of 2016 and the likelihood is that they will not be renewed.

\$500 credit for energy property

Tax exemption for mortgage forgiveness on home mortgage

Deduction for mortgage insurance premiums

Tuition deduction (Tuition credit is still available subject to income limitations)

Partnership Investments in an IRA Investment advisers have started advising clients to invest their IRAs in limited partnerships. These investments are being sold as a way to increase returns, diversify the portfolio and increase liquidity (and were high commission products). IRAs are exempt from unrelated business income tax (UBIT) on interest, dividends, royalties, rents and a few other items. The trap is that most limited partnerships operate businesses and borrow money, and most business and debt-financed income is subject to the (UBIT) on IRAs which is a flat 39.6% tax rate when received by an IRA. Even if the IRA has exempt income, the percentage attributed to debt financing may be subject to the UBIT tax at a flat 39.6% rate. If you own limited

partnership interests in your IRA check with the investment adviser to see if there is unrelated business income.

Quarterly Estimate Tax Payments The most common post-filing issue the IRS has with my clients is properly accounting for quarterly estimated tax payments. Please review your quarterly estimated tax payment records carefully and verify those payments by seeing if they cleared on your bank statement.

Electronic Filing The IRS and Arizona both encourage taxpayers to file electronically. Over 128 million tax returns were filed electronically for the 2015 tax year (approximately 91% of the tax returns filed) and over 86 million refunds were directly deposited by the IRS to taxpayers' bank accounts. Our experience is that the IRS and Arizona have developed systems that work very well and we encourage electronic filing of the tax returns.

Fees and Scope of Services We will assist you in the preparation of the federal and state individual income tax returns based on the information which you provide. We will charge a reasonable fee generally based on my current fee schedule for returns and schedules. You can find that fee schedule on my website, RowlandTax.com. Extraordinary work on a return or any schedule or additional advice will be charged at an hourly rate

Fees and rates can change without notice. If you are unable to pay the fees in full when the return is completed, please make prior arrangements.

Retainer - Audit Representation My fees (to Arizona residents only) will include a one-time charge of 8% of the preparation fees as a nonrefundable retainer to cover representation in the audit, if any, of your 2016 individual income tax returns by the IRS or the state of Arizona. The retainer covers those services at no additional charge not only for the audit, but also, when reasonable, appeals within the IRS or the Arizona Department of Revenue and to the US or Arizona Tax Court. This retainer does not include the defense against any criminal investigation or prosecution.

Investment Advice I am not a financial investment expert and not qualified to provide specific investment advice regarding the suitability of specific investments for clients. For that advice you need to turn to a competent and trusted financial advisor. And any brokerage statements and other information on financial investments being provided to me solely for the orderly preparation of your income tax returns. Please keep in mind our services are not designed to and should not be relied upon to detect fraud, theft or illegal acts of investment advisors or others. Naturally if we do notice any such activity we will bring it to your attention.

Referrals As always we greatly appreciate any past or future referrals for tax preparation.

Gift Tax Returns In addition to income taxes you may be required to file a gift tax return and in rare circumstances pay gift taxes. A gift tax return generally needs to be filed if you made gifts of more than \$14,000 to any one individual during the calendar year. Please let me know if this is

your situation.

Estate Tax Planning If the value of your assets (including life insurance) exceeds \$5,450,000 then upon you or your spouse's death there is the possibility of an estate tax. The estate tax is up to 40% of the fair market value of assets (and life insurance on your life) at the time of your death in excess of your debts and the \$5,450,000 exemption amount. There are several estate planning techniques legally available to reduce the possible estate tax such as lifetime gifts, charitable contributions, and trusts. Let me know if you want to explore estate tax planning.

Estate Plans For those of you who have Wills and/or Trusts there are six questions worth asking.

1. Is there a change in the family situation?
2. Is there a change in the size of the estate?
3. Is newly acquired property properly titled?
4. Are beneficiary designations current?
5. Is there a business succession plan in case of death or disability?
6. Are estate documents reviewed annually?

Planning for Social Security Benefits Numerous questions arise when one heads into retirement. Is it better to take Social Security benefits at age 62? Age 66? Age 70? Is it better for the spouse to collect his or her own benefits or take 50% of the other spouse's benefit? Through the magic of the internet you can now find answers. The first step is to set up access to and review one's account at the Social Security Administration. That address is ssa.gov/retire/estimator.html

Then analyze your various options using an on line calculator such as

aarp.org/work/social-security/social-security-benefits-calculator.html

maximizemysocialsecurity.com (\$40 annual fee)

SocialSecuritySolutions.com (various fees)

Tax Records We are often asked how long one needs to save tax records. The IRS has up to 3 years to audit your return; the state of Arizona 4 years. If one under-reports one's income by more than 25% (including the misstatement of basis in stocks sold) the IRS audit period expands to 6 years. Also consider that for non-tax reasons the statute of limitations for litigation in which to be sued for a debt is up to 6 years. Therefore, we recommend that you keep supporting receipts and documents to your returns for at least 6 years. We also recommend that you keep copies of the tax returns indefinitely. Also, any documents to substantiate carryover items such as capital loss carryovers need to be kept for 6 years after the year the carryover is used up.

However there are documents which need to be saved for more than six years. Keep the receipts which back up any items being depreciated on a return since those are remain subject to audit. Also, keep all the receipts on the cost of stocks, bonds, real estate (including improvements), or any other investments which you still own. And finally if you have a year which generates a net

operating loss (NOL) and that NOL is being carried forward, keep all of the tax documents for that NOL year until 6 years after the NOL is used up.

Generally (as a backup to your records) we keep copies of your tax returns and records for six years at which time they are destroyed. Keep in mind that we keep only limited copies, if any, of your W-2 forms, 1099 forms, or other supporting documents.

Preliminary Estimate For many of my clients I provide a preliminary estimate of their taxes at the time of our meeting. The completed returns can vary substantially from the preliminary estimate due to many factors including:

- a. **Use of estimates** on complex calculations such as the amount of taxable social security, Alternate Minimum Tax (AMT), phase out rules based on income, depreciation, and business vehicle expense calculations.
- b. **Additional information** provided after the preliminary estimate is made.
- c. **Calculation errors** that can occur when difficult computations are made rapidly and without the benefit of a double check.

Tax Scams

Scammers posing as IRS agents first targeted those they viewed as most vulnerable, such as older Americans, newly arrived immigrants and those whose first language is not English. These criminals have now expanded their net and are targeting virtually anyone.

Scammers alter what appears on your telephone caller ID to make it seem like they are with the IRS or another agency such as the Department of Motor Vehicles. They use fake names, titles and badge numbers. They use online resources to get your name, address and other details about your life to make the call sound official. They even go as far as copying official IRS letterhead for use in email or regular mail.

The most common theme with these tricks seems to be fear. Scammers try to scare people into reacting immediately without taking a moment to think through what is actually happening. Scam artists often angrily threaten police arrest, deportation, license revocation or other similarly unpleasant things. They may also leave “urgent” callback requests, sometimes through “robo-calls,” via phone or email. The emails will often contain a fake IRS document with a telephone number or email address for your reply.

Taxpayers should never provide personal information, financial or otherwise, to suspicious websites or strangers calling out of the blue.

Below are five things scammers often do that the real IRS would never do:

- Angrily demand immediate payment over the phone, nor will the agency call about taxes

owed without first having mailed you a bill.

- Threaten to bring in local police or other law-enforcement groups to have you arrested for not paying.
- Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe.
- Require you to use a specific payment method for your taxes, such as a prepaid debit card.
- Ask for credit or debit card numbers over the phone.

This fraud is so pervasive you can anticipate you will receive such a call this year.

If you think you are a victim of such a scam instead call the IRS at 1-800-829-1040. There the IRS worker can help you determine the balance, if any, that you owe. If you know you don't owe taxes and want to assist the government in shutting the scams down, you can report the incident to the Treasury Inspector General for Tax Administration (TIGTA) at 1-800-366-4484.

- If you've been targeted by any scam, be sure to contact the Federal Trade Commission and use their FTC Complaint Assistant at FTC.gov. Please add "IRS Telephone Scam" to the comments of your complain

Identity theft-related tax fraud have been running rampant in recent years, despite IRS efforts to control the problem. The American Institute of CPAs reported that 63 percent of CPA tax practitioners said they had one or more clients who had been victimized by identity theft during the 2015 filing season. In this case the scammer has one way or another gotten hold of your social security number. He or she then files a fake tax return using your social security number and has a refund directly deposited to their bank account. Then when you file your return, it is rejected by the IRS. For you to then establish with the IRS that yours is the correct return requires you to call the IRS Identity Protection Specialized Unit at 1-800-908-4490 and also to file with the IRS the Identity Theft Affidavit, Form 14039. I strongly recommend that you fax to the IRS (fax number 855-807-5720) the affidavit, Form 14039, anytime your social security number has been compromised. That form can be found on the IRS website, www.irs.gov. Fortunately you will not be held responsible for the money erroneously paid by the IRS to the scammer.

A third scam is that you get a call from someone claiming to be from the IRS. They tell you that the IRS has lost your return and asks you to mail them another copy. If you do so, they now have your personal information.

A new scam involves a bogus phone call from an IRS impersonator demanding payment for a non-existent tax they call the "federal student tax" and threatening to report the student to the police.