

ROBERT ROWLAND CPA
ANNUAL TAX LETTER

TAX YEAR 2017

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 tax season I had too few clients in January and February and too many clients in late March and April. For those of you who arrived early in the tax season, I sincerely thank you. To encourage tax payers to not only be more organized but also to get their information to me early in the year I have the following incentives:

1. 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 all the business K-1's or the final brokerage statements by February 20th, but you can provide to me everything else for this discount.
2. 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).
3. 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 or Dominique, 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 2017

The IRS has expanded the app that allows you to view your account on line for:

1. Your payoff amount

2. The balance for each tax year for which you owe.
3. Up to 18 months of your payment history
4. To get a transcript (See <https://www.irs.gov/individuals/tax-return-transcript-types-and-ways-to-order-them>)

To do so you will need to register for an account. (See <https://www.irs.gov/individuals/secure-access-how-to-register-for-certain-online-self-help-tools>)

For 2017 the mileage rate for **business use of a vehicle** was 53.5 cents per mile. Again I want to stress that to support your deduction for business mileage there must be a mileage log. A client highly recommended Expensify.com. Their basic app is free of charge and keeps track of not only mileage but also helps you take pictures of and keep track of business and/or itemized deduction expenses.

There are several Arizona credit (dollar for dollar reduction of the Arizona tax) for specific **contributions**. **To qualify as a credit on the 2017 Arizona return the contribution need to be made either during the 2017 calendar year or by April 15, 2018** However the credit can only apply against the Arizona tax liability. Any unused credit carries forward and can be applied in future years. The most popular credits are:

- 1 **Qualified organizations that serve the working poor.** Maximum amount is \$400 for a single person and \$800 for a married couple. For a list of qualifying organizations see www.azdor.gov/taxcredits/qualifyingcharitableorganizations.aspx.
- 2 **Qualified foster care organizations** Maximum credit is \$500 for a single person and \$1,000 for a married couple. For a list of qualifying organizations see www.azdor.gov/Portals/0/RefundCredits/CertifiedFosterCareCharities2016.pdf
- 3 **Public school extracurricular activity.** Maximum credit is \$200 for a single person and \$400 for a married couple.
- 4 **Private school scholarship organization.** Maximum credit is \$1,089 for a single person and \$2,177 for a married couple.

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 needs to state 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 mainly 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 maximum amount subject to **Social Security tax** increased to \$127,200.

The **medical deduction exclusion** was changed in 2012 to 10%. For 2017 and 2018 it reverts back to 7.5%

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)

Changes for 2018

The maximum amount of wages or self employed income subject to **Social Security taxes** increases to \$128,400.

The **standard business mileage rate** is 54.5 cents per mile

Eliminated is **miscellaneous deductions (including employee business expenses)**

The deduction for **state and local taxes** is limited to \$10,000.

Interest on new mortgages started in 2018 is limited to the first \$750,000 in debt. Also the deduction for interest on **home equity lines of credit** will be eliminated.

Amounts paid to colleges for **seating rights to athletic events** is no longer deductible.

However, itemized deductions will no longer be phased out for high income taxpayers.

The **standard deduction** will go from \$6,350 to \$12,000 for a single person and from \$12,700 to \$24,000 for a married couple. For those taxpayers who typically take the standard deduction or who are moderately able to itemize deductions this will result in a net advantage. No word on whether Arizona will increase its standard deduction. Probably not, so that itemizing for Arizona may still be worthwhile.

Eliminated is the **personal exemptions** of \$4,150 for each member of the family. In its place the **child credit** for children under age 17 will go from \$1,000 to \$2,000 each.

Modest advantageous adjustments in the **tax rates** and the amount of income subject to each tax rate.

Elimination of the **ACA (Obamacare) health insurance individual mandates**. This will allow taxpayers to explore health insurance options that are outside of those required by the ACA.

100% **first year depreciation** of business and rental property including certain real property improvements such as roofs, HVAC, and alarm and security systems.

Repealed are the deductions for **moving expenses**.

The **corporation top tax rates** will decrease from 35% to 21% (for personal service corporations 25%).

1031 like kind exchanges are applicable only to real estate and no longer to trade in of personal property.

A deduction for owners of **S corporations, LLCs, partnerships and sole proprietorship** of 20% of the business profit (with limitations on high income taxpayers) Partially offsetting that advantage the **DPAD** (domestic production activities deduction) was eliminated.

The **estate tax exemption** has doubled to over \$10,000,000 per person.

Changes for 2019

Alimony paid on divorces that occur after January 1, 2019 would no longer be deductible nor taxable to the recipient spouse.

Partnership Investments in an IRA Investment advisers at times have advised clients to invest their IRA money in limited partnerships. These investments are being sold as a way to increase returns, diversify the portfolio and increase liquidity (and are high commission products). The trap is that most limited partnerships operate businesses and borrow money, and most business and debt-financed income is subject to a flat 39.6% tax rate when received by an IRA. 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 131 million tax returns were filed electronically for the 2015 tax year (approximately 87% of the tax returns filed) and approximately 80% of all 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 2017 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.

Tax Planning Tax planning may prove to be very helpful. However, due to time constraints, February, March and April are reserved for tax preparation and is not a good time for us to explore tax planning.

Investment Advice I am not a financial investment expert and not qualified to provide 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 are 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.

Gift Tax Returns In addition to income taxes you may be required to file a gift tax return and in very 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 \$10,000,000 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 \$10,000,000 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

each year.

1. Is there a change in the family situation?
2. Is there a significant 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 web 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)

Arizona Health Insurance Alternatives Health insurance to Arizona residents has become very restrictive due to most major insurance companies pulling out of Arizona. There are a couple legal alternatives to traditional health insurance I have heard about (but do not know much about)

1. Medi-Share, a Christian health sharing ministry, since 2004.
mychristiancare.org/medi-share
2. Christian Healthcare Ministries www.chministries.org/

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 also 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 electronic 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 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.