Lally&Co.
CPAs and Business Advisors

The Evergreen

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The Evergreen. Always Growing.

Like the evergreen oak tree, Lally & Co. is always growing. With the support and loyalty of our clients and friends we have grown into a firm of 40 individuals serving clients in many diverse fields. Our growth gives us the ability to better serve our clients and provide effective solutions to their needs. If you have questions about your business or personal tax situation, please contact us. We welcome your call and are always looking for ways to better serve you.

Contact our office or visit our website for more information.

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Dear Clients and Friends,

We trust that you are enjoying the autumn season thus far. We understand that tax and accounting concerns might be the farthest thing from your mind. It is our goal to keep you up to date with timely and informative news happening in our world.

As you read through *The Evergreen*, please do not hesitate to contact us if you have questions regarding an article or regarding your business or personal tax situation. We would be happy to hear from you! This and past issues of *The Evergreen* are available on our website at http://lallycpas.com/newsletters/.

Trump Wins: What it means to the U.S. Tax Code

On the heels of the November 8th election results, more attention is being focused on President-elect Donald J. Trump's tax plan and proposed changes, especially with the Republican party holding majorities in both the House and Senate. Conventional wisdom has amending the income tax code will be part of Mr. Trump's "first 100-day" plan since economic improvement is one of his highest priorities.

The Trump Plan, as laid out over the campaign season, would lower income tax rates and exempt millions of low-income households, while providing a platform for long-term growth in the US economy. In general terms, business tax rates would be cut from 35% to 15% and they would apply to both corporate and non-corporate business entities. Individual tax rate would decrease from seven brackets ranging from 10% to 39.6% to three brackets, 12%, 25%, and 33%. The Trump plan would repeal the Alternative Minimum Tax (AMT), increase the Standard Deduction for those who do not itemize, cap the itemized deductions for those who do, repeal the Medicare tax on investment earnings and passive investments, repeal ObamaCare taxes (penalty for not buying insurance), and tax investment managers on profits interests at ordinary rates.

Opponents to the Trump Plan say the reduced tax rates will result in an increased annual deficit. Trump holds that the tax reductions, along with the repeal of ObamaCare and the reduction of regulations will spur the economy and result in increased tax collections.

Our point is this: stay tuned to your TV or radio and read your newspapers. The Wall Street Journal will be tracking the legislation and have detailed explanations on a regular basis. Our next few *Evergreen* newsletters will also provide you with current updates. Change in the tax code is nearly a certainty and that change will be coming soon and will happen quickly, possibly signed into law by Memorial Day 2017.

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Important Dates

December 15, 2016 – 2016 4th Quarter Estimated Payments for C-Corp's Due

January 15, 2017 – 2016 4th Quarter Estimated Payments Due

Firm Announcements

Jason M. Droske, CPA joined our Tax Department as a Tax Manager in August 2016

Steven B. Kustra moved from our Tax Department to our A&A Department in September 2016

Patrick J. Leedy successfully completed the Uniform CPA Exam in October 2016

Kari M. Miller rejoined our Tax Department as the firm's Tax Processor in November 2016

Thomas S. Lutz rejoined our Tax Department as a Tax Associate in November 2016

Congress Passes Targeted Tax Bills, Stop-Gap Spending Measure

As lawmakers prepared to recess for November elections, they also passed several tax-related bills in September. The bills addressed IRS operations, deductions, and more. At the same time, House and Senate negotiators reached an agreement to avoid a federal government shutdown, including the IRS, after the end of the current fiscal year.

IRS operations

Banks and other financial institutions must report any financial transaction that involves more than $10,000 in cash. Taxpayers may attempt to circumvent this requirement by conducting a series of smaller transactions instead of a single transaction. This is known as "structuring." The IRS's activities to counter structuring have generated controversy in recent years.

In September, the House passed the RESPECT Act (HR 5523), which prohibits the IRS from seizing money from taxpayers who circumvent the reporting requirements unless the IRS proves that the money was connected to a crime. The IRS will still be able to seize funds connected to illegal activities, such as money laundering and narcotics trafficking.

Olympic medals and prizes

Before the summer Olympics, lawmakers from both parties introduced bills to exempt Olympic medals and prizes (as well as Paralympic medals and prizes) from federal taxation. In September, the House approved the United States Appreciation for Olympians and Paralympians Act (HR 5946), which excludes from gross income, for income tax purposes, the value of any medal or prize money received on account of competition in the Olympic Games or Paralympic Games, subject to certain limitations.

Deductions

Under current law, taxpayers generally are allowed an immediate deduction for the cost of replanting diseased trees. In September, the House approved legislation targeted to citrus farmers. The Emergency Citrus Disease Response Act (HR 3957) allows a full deduction in the current tax of the cost of replanting lost or damaged citrus plants. The taxpayer must own an equity interest of at least 50 percent in the replanted plants and may deduct costs paid or incurred through 2025.

Federal employees

The House Oversight Committee approved legislation to allow federal employees to use transit benefits for ride-sharing. The Transit Benefits Modernization Act (HR 6008) creates a pilot program for federal employees living in the Washington, D.C. area. The pilot program for ride-sharing would run through the end of 2018.

Pending legislation

At press time, the House was poised to approve several other tax-related bills, including:

- Stop Taxing Death and Disability Act (H.R. 5204), which would provide an exclusion from income for student loan forgiveness for students who have died or become disabled.
- Nuclear Production Tax Credit Act (HR 5879), which would modify the tax credit for production from advanced nuclear power facilities
- Helping Ensure Accountability, Leadership, and Transparency in

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Tribal Healthcare (HEALTTH) Act (H.R. 5406), which clarifies the exclusion from gross income for payments made under Indian Health Service Loan Repayment Program.

Stop-gap spending bill

At press time, Congress was poised to approve a continuing resolution to fund the federal government, including the IRS, through mid-December. The continuing resolution would generally fund the IRS at current levels. Congress has been unable to agree on a fiscal year (FY) 2017 budget for the IRS.

As January 2017 approaches, lawmakers will likely pass an omnibus spending bill to cover all federal agencies for the remainder of the 2017 fiscal year, rather than individual spending bills. A year-end omnibus spending bill could extend some tax extenders, especially energy tax breaks, which are scheduled to expire after 2016.

A First Look at 2017 Inflation-Adjusted Tax Amounts Now Available

An early glimpse at the income tax picture for 2017 is now available. The new information includes estimated ranges for each 2017 tax bracket as well as projections for a growing number of inflation-sensitive tax figures, such as the tax rate brackets, personal exemption and the standard deduction. Projections – made available by Wolters Kluwer Tax & Accounting US – are based on the relevant inflation data recently released by the U.S. Department of Labor. The IRS is expected to release the official figures by early November.

Here are a few of the more widely-applicable projected amounts:

Tax Brackets

For 2017, for married taxpayers filing jointly and surviving spouses, the maximum taxable income for the:

- 10-percent bracket is $18,650, (up from $18,550 for 2016);
- 15-percent tax bracket, $75,900 (up from $75,300 for 2016);
- 25-percent tax bracket, $153,100 (up from $151,900 for 2016);
- 28-percent tax bracket, $233,350 (up from $231,450 for 2016);
- 33-percent tax bracket, $416,700 (up from $413,350 for 2016);
- 35-percent tax bracket, $470,700 (up from $466,950 for 2016); and
- 39.6 percent for all taxable income above that 35-percent bracket’s maximum income level.

For heads of household, the maximum taxable income for the:

- 10-percent bracket is $13,350 (up from $13,250 for 2016);
- 15-percent tax bracket, $50,800 (up from $50,400 for 2016);
- 25-percent tax bracket, $131,201 (up from $130,150 for 2016);
- 28-percent tax bracket, $212,500 (up from $210,800 for 2016);
- 33-percent tax bracket, $416,700 (up from $413,350 for 2016);
- 35-percent tax bracket, $446,700 (up from $441,000 for 2016);
- 39.6 percent for all taxable income above that 35-percent bracket’s maximum income level.

For unmarried, single filers who are not heads of household or surviving spouses, the maximum taxable income for the:

- 10-percent bracket is $9,325 (up from $9,275 for 2016);
- 15-percent tax bracket, $37,950 (up from $37,650 for 2016);
- 25-percent tax bracket, $91,900 (up from $91,150 for 2016);
- 28-percent tax bracket, $191,650 (up from $190,150 for 2016);
- 33-percent tax bracket, $416,700 (up from $413,350 for 2016);
- 35-percent tax bracket, $418,400 (up from $415,050 for 2016); and
- 39.6 percent for all taxable income above that 35-percent bracket’s maximum income level.

For married taxpayers filing separately, the maximum taxable income for the:

- 10-percent bracket is $9,325 (up from $9,275 for 2016);
- 15-percent tax bracket, $37,950 (up from $37,650 for 2016);
- 25-percent tax bracket, $76,550 (up from $75,950 for 2016);
- 28-percent tax bracket, $116,675 (up from $115,725 for 2016);
- 33-percent tax bracket, $208,350 (up from $206,675 for 2016);
- 35-percent tax bracket, $235,350 (up from $233,475 for 2016); and
- 39.6 percent for all taxable income above that 35-percent bracket’s maximum income level.

Standard Deduction

The 2017 standard deduction will rise $50, to $6,350 for single taxpayers. For married joint filers, the standard deduction will rise $100, to $12,700. For heads of household, the standard deduction will rise to $9,350, up from $9,300 for 2016. The additional standard deduction for blind and aged married taxpayers will remain at $1,250. For unmarried taxpayers who are blind or aged, the amount of the additional standard deduction will also remain the same ($1,550).

For 2017 the so-called "kiddie" deduction used on the returns of children claimed as dependents on their parents’ returns remains $1,050 or $350 plus the individual’s earned income.

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Personal Exemptions

The personal exemption will be $4,050 for 2017, the same as for 2016. The phase-out of the personal exemption for higher-income taxpayers will begin after taxpayers pass the same income thresholds set forth for the limitation on itemized deductions.

Limitation on Itemized Deductions

For higher-income taxpayers who itemize their deductions, the limitation on itemized deductions will be imposed as follows:

- For married couples filing joint returns or surviving spouses, the income threshold will begin to phase out at income over $313,800, up from $311,300 for 2016.
- For heads of household, the beginning threshold will be $287,650 in 2016, up from $285,350 for 2016.
- For single taxpayers, the beginning threshold will be $261,500, up from $259,400 for 2016.
- For married taxpayers filing separate returns, the 2016 threshold will be $156,900, up from $155,650 for 2016.

Estate and Gift Tax

Gift Tax. The 2017 gift tax annual exemption will remain the same as for 2016, at $14,000.

Estate Tax. The estate and gift tax applicable exclusion will increase from $5,450,000 in 2016 to $5,490,000 in 2017.

Gifts to Noncitizen Spouses. The first $149,000 of gifts made in 2017 to a spouse who is not a U.S. citizen will not be included in taxable gifts, up $1,000 from $148,000 for 2016.

AMT Exemptions

The American Taxpayer Relief Act of 2012 provided for the annual inflation adjustment of the exemption from alternative minimum tax (AMT) income. Previously, this inflation adjustment had to be enacted by Congress each year. For 2017, the AMT exemption for married joint filers and surviving spouses is projected to be $84,500 (up from $83,800 for 2016). For heads of household and unmarried single filers, the exemption will be $54,300 (up from $53,900 for 2016). For married separate filers, the exemption will be $42,250 (up from $41,900 for 2016).

Year-End Tax Planning is Right Around the Corner

It's not too early to get ready for year-end tax planning. In fact, many strategies take time to set up in order to gain maximum benefit. Here are some preliminary considerations that may help you to prepare.

Gather your data. One major reason for planning towards year's end is that you usually now have a clearer picture of what your total income and deductions will look like for the entire year. From those estimates, you may want to do some planning to accelerate or defer income and/or deductions in a way that can lower your overall tax bill for this year and next. To do that effectively, however, you need to take inventory of your year-to-date income and deductions, as well as take a look ahead at likely events through December 31, 2016, that may impact on that tally. Since you'll need to eventually gather this data for next year's tax return, you can double-down on the benefits of doing so now.

Personal changes

Changes in your personal and financial circumstances – marriage, divorce, a newborn, a change in employment, investment successes and downturns – should all be noted for possible consideration as part of overall year-end tax planning. A newborn, for example, may not only entitle the proud parents to a dependency exemption, but also a child tax credit and possible child care credit as well. Also, as with any 'life-cycle" change, your tax return for this year may look entirely different from what it looked like for 2015. Accounting for that difference now, before year-end 2016 closes, should be an integral part of your year-end planning.

New developments

Recent tax law changes – whether made by legislation, the Treasury Department and IRS, or the courts – should be integrated into specific to 2016 year-end plan. A strategy-focused review of 2016 events includes, among other developments:

- the PATH Act (including those handful of extended provisions that will expire before 2017, as well as longer-extended changes to bonus depreciation and expensing rules);
- new *de minimis* and remodel-refresh safe harbors within the ground-breaking and far-reaching "repair regulations;"
- the definition of marriage as applied by new IRS guidance;
- growing interest by the IRS in the liabilities and responsibilities of participants within the "sharing economy";
- changing responsibilities of individuals and employers under revised rules within the Affordable Care Act; and

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- the impact of recent Treasury Department regulations, including those affecting certified professional employer organizations, late rollover relief, changes to deferred compensation plans, partial annuity payment options from qualified plans, and more.

Timing

Once December 31, 2016 has come and gone, there is very little that you can do to lower your tax bill for 2016. True, there are some retirement plan contributions made early in 2017 that may count to offset 2016 liabilities and some accounting-oriented elections may be made when filing a 2016 return. But those opportunities are limited, with much greater potential savings on most fronts available if action is taken by December 31. For business taxpayers, one of many planning points to keep in mind: a deduction for equipment is not allowed until it is "placed into service" within the business operations; purchasing is not enough.
