Lally&Co.
CPAs and Business Advisors

The EVERGREEN

Quarterly Journal for Clients & Friends

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This Issue:

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 42 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,

As we begin the new year, many clients are asking how they can prepare for the 2016 tax filing season and the 2017 tax year. This newsletter discusses certain tax planning techniques and items to be aware of in the upcoming year.

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/.

All Eyes on Tax Reforms in 2017

Congress ended 2016 passing a few targeted tax bills and lawmakers focused on the incoming Trump administration and tax reform in 2017. President Donald Trump campaigned on tax cuts for individuals and businesses. Already, lawmakers from both sides of the aisle are preparing for what is expected to be spirited debate over tax cuts in 2017.

Year-end legislation

In December, President Obama signed the 21st Century Cures Act and the Combat-Injured Veterans Tax Fairness Act. Under the 21st Century Cures Act, eligible small employers may adopt qualified small employer health reimbursement arrangements (QSEHRAs) to reimburse employees for the cost of premiums for individual or family health coverage without being subject to group-health plan requirements. The new law also extends transition relief for small employers. Without the new law, small employers ran the risk of a costly excise tax. The Combat-Injured Veterans Tax Fairness Act will refund money that was improperly withheld for tax purposes from severance payments to certain veterans of the U.S. Armed Forces. Both bills enjoyed bipartisan support in the House and Senate.

Unlike past years, Congress did not take up the so-called tax extenders in December. The Protecting Americans from Tax Hikes Act of 2015 (PATH Act) extended or made permanent many extenders but left out some incentives for energy efficiency and production, along with a few incentives for individuals. These remaining extenders could be taken up in 2017 as part of tax reform.

New administration

On the campaign trail, President Donald Trump called for reducing the tax rates on individuals, lowering the corporate tax rate, repealing the federal estate tax, and creating new incentives for families. President Trump also called for eliminating some unspecified tax preferences and taxing carried interest as ordinary

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Important Dates

February 28, 2017 – 2016 Form 1099 Due

March 15, 2017 – 2016 Partnership & S-Corp Tax Returns Due

April 17, 2017 – 2017 1st Quarter Estimated Tax Payments Due

April 18, 2017 – 2016 C-Corporation Tax Returns Due; 2016 Individual Tax Returns Due; 2016 Form 114 - FBAR Returns Due; and 2016 Form 1041 -Trust Returns Due

Firm Announcements

Christina M. Welsh joined our firm's Administrative Staff in January 2017

Joyce A. Goettler joined our firm's Administrative Staff in February 2017

In January 2017, **Lally & Co.** completed a major renovation of our office space at 5700 Corporate Drive. The renovations expanded our office to include all of the following new additions and updates:

- 12 new employee workstations located in our brand-new common area for staff;
- 5 new internal offices;
- A brand-new kitchen and break area for employees;
- A completely renovated second kitchen and break area;
- New carpeting throughout the hallways and common areas; and
- A fresh coat of paint throughout

This renovation will accommodate the future growth of the firm and will enable us to continue to deliver the highest level of customer service to our clients.

income. More details are expected to be unveiled now that President Trump has taken office.

House Republicans in June 2016 put forth a tax reform package that has many similar features to President Trump's proposals. The House GOP plan calls for individual and business rate cuts. However, there are differences. One difference is the House GOP's so-called border adjustability; another difference is the GOP's elimination of the IRS Oversight Board. These and other provisions are certain to generate debate in the early part of 2017.
Any tax reform package will need not only to pass the House but also the Senate before reaching the White House. While Republicans have a majority in the Senate, the chamber's rules generally require a super-majority to pass tax bills. Republicans could use a process known as reconciliation to pass a tax reform bill with a simple majority. Any move to use reconciliation will also likely spark debate among lawmakers.

Filing Season Launched; Some Refunds May Be Delayed

The individual income tax filing season opened on January 23, 2017, the IRS has announced. The IRS also reminded taxpayers that the Protecting Americans from Tax Hikes Act of 2015 (PATH Act) (P.L. 114-113) may impact certain refunds in 2017.

Filing season launch

The IRS began accepting electronic tax returns and processing paper returns on January 23, 2017.
Unlike past years, the IRS did not have to deal with late tax legislation in 2016. Typically, the IRS needed extra time to reprogram its processing systems for late tax legislation and that can move the start of the filing season to later in January.

The deadline for filing 2016 returns is Tuesday, April 18, 2017. The deadline is three days later in 2017 because April 15, 2017 falls on a Saturday. Additionally, Monday, April 17, 2017 is a holiday in the District of Columbia. That holiday moves the deadline to April 18, 2017.

Refunds

The PATH Act generally requires that no credit or refund for an overpayment for a tax year will be made to a taxpayer before the 15th day of the second month following the close of that tax year, if the taxpayer claimed the earned income tax credit (EITC) or Additional Child Tax Credit (ACTC) on the return. The provision in the PATH Act applies to credits or refunds made after December 31, 2016.

The IRS explained that it must hold the entire refund, even the portion not associated with the EITC and the ACTC. The IRS reported that it will begin releasing affected refunds starting February 15, 2017. However, the IRS reminded taxpayers that it may take additional time for financial institutions to accept and deposit the refunds to taxpayers' accounts. The IRS added that taxpayers can track the status of a refund by using the "Where's My Refund?" tool on the IRS website and also the IRS2Go app. "This is an important change as some of these taxpayers are used to getting an early refund," IRS Commissioner John Koskinen said. "We want people to be aware of the change for their planning purposes. We don't want anyone caught by surprise if they get their refund a few weeks later than in previous years."

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ITINs

Another important change affects individual taxpayer identification numbers (ITINs). Under the PATH Act, any ITIN not used on a tax return at least once in the past three years expires January 1, 2017. In addition, any ITIN with middle digits of either 78 or 79 (9NN-78-NNNN or 9NN-79-NNNN) will also expire on that date. The IRS encouraged affected taxpayers to renew their ITINs.

Are Some Tax Return Deadlines Changing in 2017?

The Surface Transportation Act of 2015: Tax Provisions (enacted on July 31, 2015) provided for major changes in certain tax return deadlines. To allow for a transition period for taxpayers to adjust to the new due dates, the new filing deadlines carried a delayed effective date: for tax returns for tax years starting on or after January 1, 2016. As a result, the upcoming 2017 filing season is the first year these changes will take place.

Partnerships

The due date for partnerships to file Form 1065, U.S. Return of Partnership Income and Schedule K-1s, Partner's Share of Income, is moving this year from April 15 to March 15 (or to the 2½ months after the close of its tax year). This will be the same filing deadline now in place for S corporations.

The shift to a March 15 deadline will better enable partners, like current S corporation shareholders, to receive their Schedules K-1 in time to report that information on their Form 1040 before its April 15 due date. Many partners in the past had been forced to file for a six-month extension to file their Form 1040s.

The traditional April 15, 2017 deadline falls on a Saturday and because Washington, D.C., will celebrate Emancipation Day the following Monday, April 17, 2017, the filing deadline has been pushed to Tuesday, April 18, 2017.

C Corporations

The filing deadline for regular C corporations is moving this year from March 15 (or the 15th day of the 3rd month after the end of its tax year) to April 15 (or the 15th day of the 4th month after the end of its tax year). *One exception:* For C corporations with tax years ending on June 30, the filing deadline will remain at September 15 until tax years beginning after December 31, 2025, when it will become October 15. Further, an automatic six-month extension will be available for C corporations, except for calendar-year C corporations through 2025, during which an automatic five-month extension until September 15 will generally apply. The stop-gap bill also instructs the IRS to modify regulations to provide for a variety of extensions-to-file rules, including, among others, a 6-month extension of Form 1065 to September 15 for calendar-year partnerships; and 5½ months ending September 30 for calendar-year trusts filing Form 1041.

FBARs

The new law also aligns the FBAR (Report of Foreign Bank and Financial Accounts) due date with the due date for individual returns, moving it from June 30 to April 15.

How Do I Know What Records to Discard?

A new year may find a number of individuals with the pressing urge to take stock, clean house and become a bit more organized. With such a desire to declutter, a taxpayer may want to undergo a housecleaning of documents, receipts, and papers that he or she may have stored over the years in the event of an IRS audit. Year to year, fears of an audit for claims for tax deductions, allowances, and credits may have led to the accumulation of a number of tax related document—many of which may no longer need to be kept.

However, it is of extreme importance for tax records to support the income, deductions, and credits claimed on returns. Therefore, taxpayers must keep such records in the event the IRS inquires about a return or amended return.

Return-related documents

Generally, the IRS recommended that a taxpayer keep copies of tax returns and supporting documents at least three years. However, the IRS noted, there are some documents that should be kept for up to seven years, for those instances where a taxpayer needs to file an amended return or if questions may arise. As a rule of thumb, taxpayers should keep real estate related records for up to seven years following the disposition of property.

Health care related documents

Although health care information statements should be kept with other tax records, taxpayers are to remember that such statements do not need to be sent to the IRS as proof of health

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coverage. Records that taxpayers are strongly encouraged to keep include records of employer-provided coverage, premiums paid, advance payments of the premium tax credit received, and the type of coverage held. As with other tax records, the IRS recommended that taxpayers keep such information for three years from the time of filing the associated tax return.

Last year's return

Taxpayers are encouraged to keep a copy of last year's return. The IRS, in efforts to thwart tax related identity theft and refund fraud, continues to make changes to authenticate and protect taxpayer identity in online return-related interactions. Beginning in 2017, some taxpayers who e-file will need to enter either the prior-year adjusted gross income or the prior-year self-select PIN and date of birth—information associated with the prior year's return—to authenticate their identity.
