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2016–17 INCOME TAX BULLETIN

This publication is provided as a service to our clients. It focuses on the following topics:

- Federal Tax Law Changes
- Oregon Tax Law Changes
- Overtime and Minimum Wage Changes
- Other Tax Developments
- Transportation & Travel Expenses
- Retirement and Health Care Plans
- Administration and Reporting Issues
- Supplemental Charts

EXECUTIVE SUMMARY

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FEDERAL TAX LAW CHANGES	**Consolidated Appropriations Act, aka** **Protecting Americans from Tax Hikes Act of 2015** Expired tax breaks extended or made permanent retroactive to 1-1-15 • Individual provisions made permanent • Business provisions made permanent (including Sec. 179) • Provisions extended through 2016 • Provisions extended through 2019 • Healthcare Provisions • Administrative and Reporting Provisions	*All Taxpayers*	4-5
FEDERAL TAX LAW CHANGES	**Health Care Reform Acts of 2010 Update** • Individual Mandate Provisions ✓ <u>Increasing penalties</u> apply to taxpayers without health insurance unless specifically exempt ✓ Forms 1095-A, 1095-B, or 1095-C verify coverage ✓ All members of family must coordinate tax filing due to "household income" measurement • Self-Employed Health Insurance Deduction • Employer Mandate ✓ Now applies to employers with 50 or more full-time employees (FTE) ✓ Smaller employers can separate dependent coverage to reduce employee portion of premiums	*Individuals and all Employers*	5-6
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EXECUTIVE SUMMARY

FEDERAL TAX LAW CHANGES

CONSOLIDATED APPROPRIATIONS ACT, aka PROTECTING AMERICANS FROM TAX HIKES ACT OF 2015

Source: Journal of Accountancy and Tax Speaker

On December 18, 2015 President Obama signed this law with dozens of temporary and permanent extensions of provisions that had expired. Provisions that affect many of our clients include the following.

Individual provisions made permanent

- Deduction for certain expenses of elementary and secondary school teachers;
- Parity for exclusion from income for employer-provided mass transit and parking benefits;
- Deduction of state and local general sales taxes;
- Computer and technology costs qualify as education expenses;
- Special rule for contributions of capital gain real property made for conservation purposes;
- Tax-free distributions from individual retirement plans for charitable purposes;
- The American Opportunity Tax Credit for qualified tuition and other expenses of higher education (need EIN of institution);
- Enhanced provisions of the child tax credit and the earned income tax credit.

Business provisions made permanent (including Sec. 179)

- Credit for increasing research and development activities;
- Increased expensing amounts under Sec. 179 (discussed later);
- Wage credit for employees who are active duty members of the uniformed services;
- Fifteen-year straight-line cost recovery and/or Sec. 179 expensing for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements;
- Computer software and heating/air equipment eligible for Sec. 179;
- Charitable deduction for contributions of food inventory;
- Exclusion of 100% of gain on sale of certain small business stock;
- Basis adjustment to stock of S corporations making charitable contributions of property;
- Reduction in S corporation recognition period for built-in gains tax (from 10 to 5 years).

Provisions extended through 2016

- Exclusion from gross income of discharge of qualified principal residence indebtedness;
- Mortgage insurance premiums treated as qualified residence interest;
- Above-the-line deduction for qualified tuition and related expenses;
- Principal residence mortgage debt exclusion;
- Indian employment tax credit;
- 3 year depreciation life on race horses;
- Fuel cell & 2 wheel electric vehicle credits.

Provisions extended through 2019

- Additional first-year bonus depreciation under Sec. 168(k) (discussed later)
- Work opportunity tax credit;
- New markets tax credit.

The Act includes many other provisions, some of which are revenue raisers intended to reduce the cost of the credits and deductions noted previously.

Healthcare Provisions

- Two-year delay until 2020 for effective date of excise tax on "Cadillac" high-cost health insurance
- Suspension of 2.3% medical device tax until 2018

Administrative and Reporting Provisions

- Amount of penalty: The Act amends the definition of "underpayment" to include the refundable portion of credits.
- Information returns: The Act modifies the due dates for certain information returns. Specifically, Forms W-2, *Wage and Tax Statement,* and W-3, *Transmittal of Wage and Tax Statements,* and returns or statements that report nonemployee compensation (such as Form 1099-MISC, *Miscellaneous Income*) must be filed by January 31 of the year following the calendar year to which the return relates. The current due date for filing these forms with the IRS is February 28 for paper copies and March 31 for e-filed copies. The new earlier filing deadlines are effective for returns and statements relating to calendar years 2016 and thereafter. They are intended to help combat identity theft by providing third party verification of W-2 amounts prior to hacking attempts. The Act also establishes a safe harbor from penalties for failure to file correct information statements and from failure to furnish correct payee statements (discussed in 1099 reporting section later).
- Truncated Social Security numbers: The Act requires employers to include an "identifying number" for each employee, rather than the employee's Social Security number on form W-2. This will allow Treasury to issue regulations permitting use of a truncated Social Security number on Form W-2. The AICPA has long advocated for this measure to help prevent identity theft.
- Due-diligence requirements: The Act expands the due-diligence requirements for paid tax return preparers. The current due-diligence requirements for preparers under the earned income tax credit—and the $500 penalty—are expanded to include returns that claim the child tax credit and/or the American opportunity tax credit. This provision is effective for tax years beginning after December 31, 2015 and means that preparers will be required to obtain more information from clients who claim these credits.
- Higher education information reporting: Beginning in 2016 all deductions or tax credits for higher education expenses will require form 1098-T. The Act changes the Form 1098-T, *Tuition Statement*, reporting requirements, so that schools will be required to report only qualified tuition and related expenses actually paid for education furnished in academic periods starting after December 31, 2015.
- Work college programs: The Act exempts from gross income payments from certain work-learning-service programs operated by work colleges for tax years beginning after the date of enactment.
- Sec. 529 accounts: The rules for these accounts are modified to eliminate the distribution aggregation requirements, so any distribution from a 529 account will be treated as coming only from that account.
- REITs: The Act makes numerous changes to the rules regarding real estate investment trusts.

HEALTH CARE REFORM ACTS OF 2010 - UPDATE

Sources: CCH Federal Tax Weekly and Thomson Reuters

Our office has issued multiple newsletters on health care reform beginning with the enactment in May 2010. Copies are available upon request. Health care reform is actually made up of two laws: The *Patient Protection and Affordable Care Act (PPACA)* and the *Health Care and Education Reconciliation Act (HCERA).* Common features to both laws are delayed effective dates for many of the provisions. The purpose of this article is to provide an update on provisions that are effective in 2016 and 2017, including the *Protecting Affordable Coverage for Employer Act (PACE)* passed in September 2015.

Individual Mandate Provisions

The individual mandate under the *PPACA* generally requires individuals, unless expressly exempt or under income thresholds, to have minimum essential health insurance coverage or pay a penalty. "Minimum essential coverage" is required to avoid the penalty. The states offer such coverage through insurance "Exchanges". Exchanges, insurance companies, and large employers will issue annual forms 1095-A, 1095-B, or 1095-C to taxpayers to verify coverage. The original due date of February 1, 2017 has been extended to March 2, 2017. Therefore, many taxpayers will be asked to certify coverage to their tax preparers without this corroborating form. Taxpayers who are scheduled to receive Form 1095-B or C may rely on other information provided by their employer to certify coverage prior to March 2, 2017. Taxpayers who will receive Form 1095-A must wait for the form before filing, due to the calculation of premium tax credits or surcharges.

The "per adult" annual penalty for lack of coverage is phased in:

2016: Greater of 2.5% of applicable income or $695
2017 and later: Indexed for inflation from $695

"Applicable income" is defined as the excess of household income over the threshold amount. The penalty imposed on uninsured individuals under age 18 is one half of the amount imposed on adults. A taxpayer is responsible for providing coverage for another individual if he is able to claim a personal exemption for the individual. For a family the maximum household penalty is the greater of the annual percentage amount or 300% of the adult penalty. The "household" income measurement requires that the tax returns of all household members (including) children be coordinated.

Self-Employed Health Insurance Deduction

Self-employed taxpayers and shareholders of S corporations can deduct their health insurance premiums without regard to the floor based on adjusted gross income that applies to medical expenses. However, this deduction must be reduced by any premium tax credit allowed under the Affordable Care Act, so it is a circular calculation. There are two methods available under Revenue Procedure 2014-41, and it is highly recommended to use tax software to get the best result:

- The "iterative" calculation requires six steps.
- The "alternative" calculation requires four steps.

Employer Mandate Provision

Beginning in 2015 firms with 100 or more full-time equivalent employees (FTE) but no health plan will owe a nondeductible excise tax if even one employee gets the premium assistance tax credit discussed under the Individual Mandate. This rule extended to companies with 50-99 employees beginning in 2016. To avoid the penalty, the employer must pay at least 50% of the premium per FTE of "affordable" coverage where no employee is asked to pay over 9.5% of his/her household income in the employee share of the premium. The tax is $2,000 times the number of employees, with a 30-employee offset. It is also due if an employer offers health insurance coverage that is substandard or is too costly for employees. If any employee buys coverage through an exchange, the tax rate rises to $3,000. An exemption applies where the workforce exceeds 100/50 FTE respectively for no more than 120 days and the excess employees were all seasonal.

Small employers (50 or fewer employees) who are not subject to the employer mandate, but provide coverage to their employees as part of their fringe benefit packages must ensure that the coverage meets Affordable Care Act standards and is pursuant to a written non-discriminatory plan. Small employers often require employees to cover the premiums for spouses and dependents. Amendment of the insurance plan contract could allow exclusion of dependents, which would enable employees to purchase dependent coverage from an Exchange. This decision should involve a comparison of the cost savings to employees with the inconvenience to them of using the Exchange.

21st CENTURY CURE ACT

Source: Vern Hoven – WesternCPE.com

The 21st Century Cure Act was enacted in December 2016. The legislation provides for an exception from group health plan requirements for qualified small employer health reimbursement arrangements. Beginning in 2017, a small employer may again reimburse employees for individual health insurance premiums without fear of the onerous $100 per day per employee penalty assessed for violation of health care reform.

Plan requirements. To qualify as "a qualified small employer health reimbursement arrangement", the plan must meet certain requirements.

1. The plan must be provided on the same terms to all employees. Some employees may be excluded from the plan:
   - employees who have not completed 90 days of service,
   - employees who have not attained age 25,
   - part-time (less than 30 hours a week) or seasonal employees,
   - employees subject to collective bargaining.
2. The plan must be funded solely by the employer, and no salary reduction contributions may be made under the arrangement.
3. The plan must provide, after the employee provides proof of minimum essential coverage, for the payment of, or the reimbursement of, medical expenses of an eligible employee or the employee's eligible family members.
4. The plan must provide that payments and reimbursements for any year be no more than $4,950 for an eligible employee and $10,000 if the arrangement provides payment or reimbursement for family members. In the case of an individual who is not covered for the entire year, the limitations are prorated.

Small employer. An eligible employer is one that has less than 50 full-time and full-time equivalent employees. An eligible employer may not offer a group health plan to any of its employees.

Tax-free fringe benefit. A qualified small employer health reimbursement arrangement payment or reimbursement is not excluded from gross income if, for the month in which such medical care is provided, the individual does not have minimum essential health coverage.

Premium tax credit. For an employee who is provided a qualified small employer health reimbursement arrangement for any coverage month, the premium tax credit for that month will be reduced.

Other rules.

- The eligible employee must receive proper and timely notice of the plan availability.
- The total amount of the permitted benefit must be reported on the employee's Form W-2.
- The transition relief provided in IRS Notice 2015-17 is extended for any plan year beginning on or before December 31, 2016.

COMPREHENSIVE REPAIR AND CAPITALIZATION REGULATIONS

Source: CCH Federal Tax Weekly

In November 2015, the IRS announced an increase in the tangible de minimis safe harbor limit under the "repair regs" for taxpayers without an applicable financial statement (AFS). The new $2,500 threshold takes effect starting with tax year 2016. The IRS also provided audit protection to qualified taxpayers by not challenging use of the new $2,500 threshold in tax years prior to 2016. Business taxpayers can evaluate the nature of their recurring equipment purchases to determine if they want to revise their capitalization policies to increase their threshold from the old $500 level.

OREGON TAX LAW CHANGES

Source: Oregon Department of Revenue

OREGON VS. FEDERAL TAX LAW

HB 4025 followed the previous precedent of a "rolling reconnect" by reconnecting Oregon tax law to the federal Internal Revenue Code as of December 31, 2015 with specific exceptions, such as the domestic production activities deduction, tax rate schedules, and tax credits.

OREGON COLLEGE SAVINGS PLAN

The Oregon College Savings Plan is an IRC Sec 529 plan that enables families to accumulate tax-free investment earnings to fund qualified higher education expenses. Contributions made to accounts in the Plan are also deductible for Oregon tax purposes only up to annual limits. For 2016 the inflation-adjusted limits are $4,620 for taxpayers who file a joint return and $2,310 for all others.

INCREASE IN EARNED INCOME CREDIT

House Bill 4110 increased the Oregon earned income tax credit from 8% of the federal credit to 11% for taxpayers with a dependent under the age of three at the close of tax years 2017 through 2019.

OREGON RETIREMENT SAVINGS PLAN

- Begins July 1, 2017
- Retirement-savings option to Oregonians who don't have one through their place of employment.
- Automatic enrollment, payroll deduction, on a flexible, opt-out basis for Oregonians 18 years and older who have reported income and have no savings option at work.
- Saving rate of 5% of wages for new enrollees, unless workers choose a different level.

OVERTIME AND MINIMUM WAGE CHANGES

FEDERAL OVERTIME RULES UNDER FAIR LABOR STANDARDS ACT

Source: Jennings Advisory Group, LLC

New overtime rules were set to become effective December 1, 2016. However, they have been delayed by a federal court injunction. The rules are contained in the federal Fair Labor Standards Act, (FLSA) which establishes minimum wages, overtime pay and record keeping requirements. Many states, including Oregon, use the FLSA as a basis for labor rules within the state. A review of the new rules is helpful in understanding the goals of the Department of Labor prior to an audit.

The FLSA does not require: vacation, holiday, severance or sick pay; meal or rest periods, holidays off, or vacations; premium pay for weekend or holiday work; pay raises or fringe benefits; or a discharge notice, reason for discharge, or immediate payment of final wages to terminated employees.

Companies are exempt from the FLSA if they:

- Have annual sales less than $500,000 (unless engaged in interstate commerce); or
- Are engaged in the operation of a hospital, an institution primarily engaged in the care of the sick, the aged, or the mentally ill who reside on the premises; a school for mentally or physically disabled or gifted children; a preschool, an elementary or secondary school, or an institution of higher education (whether operated for profit or not for profit); or
- Are an activity of a public agency.

The new rules require overtime pay at 150% of regular pay for total work hours in a week in excess of 40 for employees earning less than $47,476 annually. Many people incorrectly believe the rules are applied per pay period work requirement – they are not – they are applied per 40 hour week.

Exemptions from Overtime Pay Only

- Certain commissioned employees of retail or service establishments; auto, truck, trailer, farm implement, boat, or aircraft sales-workers; or parts-clerks and mechanics servicing autos, trucks, or farm implements, who are employed by non-manufacturing establishments primarily engaged in selling these items to ultimate purchasers;

- Employees of railroads and air carriers, taxi drivers, certain employees of motor carriers, seamen on American vessels, and local delivery employees paid on approved trip rate plans;

- Announcers, news editors, and chief engineers of certain non-metropolitan broadcasting stations;

- Domestic service workers living in the employer's residence;

- Employees of motion picture theaters; and

- Farmworkers. Employees who are employed in agriculture as that term is defined in the Act are exempt from the overtime pay provisions. They do not have to be paid time and one half their regular rates of pay for hours worked in excess of forty hours per week. Agriculture includes farming in all its branches when performed by a farmer or on a farm as an incident to or in conjunction with such farming operations. Agriculture does not include work performed on a farm which is not incidental to or in conjunction with such farmer's farming operation. It also does not include operations performed off a farm if performed by employees employed by someone other than the farmer whose agricultural products are being worked on.

Mandatory time keeping

Every small business needs to implement time keeping systems December 1, 2016. Overtime-eligible workers are not required to punch a time clock. The FLSA requires that employers keep certain records for each nonexempt worker. Employers have options for accounting for workers' hours – some of which are very low cost. The recordkeeping requirements provide that an employer must keep an accurate record of the total number of hours worked for each day in a pay period to ensure that an employee is fully compensated for all hours worked. The Department of Labor tells us that there is no requirement to maintain time clocks for employees. Nothing in the FLSA or in the regulations governing the white collar exemptions requires employers to pay overtime-eligible employees on an hourly basis. Pay particular attention to remote workers who work from home!

No more comp time

The FLSA provides that most covered employees must receive overtime pay for hours worked over 40 in a workweek at a rate not less than one and one-half times their regular rate of pay. The use of compensatory time ("comp time") instead of overtime pay is limited by the FLSA to a public agency that is a state, a political subdivision of a state, or an interstate governmental agency, under specific circumstances. Private employers cannot satisfy their overtime obligations by providing comp time and must pay overtime-eligible employees an overtime premium for hours over 40 in a workweek.

OREGON MINIMUM WAGE INCREASE

Source: Oregon State Bar

Senate Bill 1532 replaced the uniform state minimum wage in Oregon with separate minimum wage scales which increase every year for each of three defined regions of the state. The new rates were effective July 1, 2016.

One rate applies only within the urban grown boundary of the Portland Metropolitan Area. Another rate applies in 18 enumerated "nonurban" counties. A base rate applies to the rest of the state. The 18 "nonurban" counties with the lowest minimum wage are: Baker, Coos, Crook, Curry, Douglas, Gilliam, Grant, Harney, Jefferson, Klamath, Lake, Malheur, Morrow, Sherman, Umatilla, Union, Wallowa, and Wheeler.

Date Range	(1) “Base-rate” for areas not in columns 2 or 3	(2)Rate for urban growth boundary of Portland Metropolitan area	(3) Rate for “Nonurban” counties
July 1, 2016, to June 30, 2017	$9.75	$9.75	$9.50
July 1, 2017, to June 30, 2018	$10.25	$11.25	$10.00
July 1, 2018, to June 30, 2019	$10.75	$12.00	$10.50
July 1, 2019 to June 30, 2020	$11.25	$12.50	$11.00
July 1, 2020, to June 30, 2021	$12.00	$13.25	$11.50
July 1, 2021, to June 30, 2022	$12.75	$14.00	$12.00
July 1, 2022, to June 30, 2023	$13.50	$14.75	$12.50
After July 1, 2023	Adjusted based on CPI	+ $1.25 base rate	- $1.00 base rate

After June 30, 2023, the base rate will be adjusted based on the consumer price index, with Portland’s rate $1.25 higher than the base rate and the nonurban county rate $1.00 lower than the base rate.

EMPLOYEE PAY STATEMENTS

SB1587 made several changes regarding what information must be included on an itemized pay stub effective January 1, 2017. Under the bill, employers must include several additional pieces of information including dates of work covered by the payment, the rate of pay, gross and net pay, and any allowances or deductions made from the pay. The bill permits the pay statement be provided electronically with the consent of the employee. The bill also requires that employers maintain time and pay records for both current and terminated employees for the period of time required by the federal Fair Labor Standards Act, and provide an employee the opportunity to inspect such records within 45 days of a request.

OTHER TAX DEVELOPMENTS

IRC SECTION 179 EXPENSE ELECTION

Under Code Sec. 179, businesses can elect to recover all or part of the cost of qualifying property, up to a limit, by deducting it in the year it is placed in service. The Code Sec. 179 dollar limitation for 2016 and 2017 is $500,000 with a $2,010,000 investment ceiling. These limits were made permanent by the 2015 *Protecting Americans from Tax Hikes Act* discussed earlier and are indexed for inflation. Qualified property must be tangible personal property, which is actively used in the business, and for which a depreciation deduction would be allowed. Qualified property must be newly purchased new or used property, rather than property that was previously owned and recently converted to business use. An IRS ruling in 2012 approved the use of the Sec. 179 expense deduction for the cost of orchards and vineyards (including capitalized planting costs), but not until the year in which the fruit is first harvested. The 2015 legislation confirmed that expensing is allowed for off-the-shelf computer software, leasehold improvements, and qualified improvements to restaurant and retail buildings. If qualified purchases for the year exceed the expensing dollar limit, the business can decide to split the expensing election among the new assets. It may be more valuable to expense assets with the longest depreciation periods and items that are used, since only new items are eligible for bonus depreciation. As long as newly purchased business equipment is placed in service before the end of the tax year, the entire expensing deduction is allowed for that year. The expense depends on the date the qualified property is placed in service; not when it is purchased or paid.

IRC SECTION 168(k) BONUS DEPRECIATION

The first-year bonus depreciation deduction under IRC Sec. 168(k) was extended through 2019 as part of the *Protecting Americans from Tax Hikes Act of 2015*. The existing rate of 50% applies through 2017 and then phases down in 2018 & 2019. Extension beyond 2019 would require new legislation. Unlike the section 179 expense deduction, the bonus depreciation deduction is not limited to smaller companies or capped at a certain dollar level. Qualified property is virtually any new (not used) equipment, building or leasehold improvement with a cost recovery period by statute of no more than 20 years. Nevertheless, additional first-year bonus depreciation applicable to vehicles are limited to $8,000, whether other assets in the same depreciation class are entitled to 50-percent bonus depreciation. As an exception that continues under prior law, Sport Utility Vehicles (SUVs) and pickup trucks with a gross vehicle weight rating in excess of 6,000 pounds are exempt from the luxury car depreciation caps discussed below. These qualify for a separate cap of $25,000 in Sec.179 or 168(k) expense.

INCOME TAX RETURN DUE DATES

Source: CCH Federal Tax Weekly

President Obama signed the *Surface Transportation and Veterans Health Care Choice Improvement Act of 2015* (P.L. 114-41) on July 31 and a revision in November. Among its provisions, the Act revises due dates for the following types of income tax returns beginning with the 2016 tax year:

- Partnerships move from April 15 to March 15 (or 2 ½ months after the close of the fiscal year)
- Regular C corporations move from March 15 to April 15 (or 3 ½ months after the fiscal year close); one month later for Oregon returns
- C corporations with tax years ending on June 30 retain the existing September 15 filing deadline until 2026 when it moves to October 15.
- FBAR (Report of Foreign Bank & Financial Accounts, Fin Cen Form 114) moves from June 30 to April 15.

Automatic extensions for the following entity types are also changed:

- Exempt organizations – 6 months
- Fiduciaries (estates & trusts) – 5 ½ months

FAFSA REPORTING

Beginning with the 2017-18 academic year, a student's federal financial aid application (FAFSA) can use prior prior year data. In other words, 2017-18 FAFSAs can use 2015 tax return data. This eliminates the need to estimate data on 2016 returns not yet filed.

BASIS REPORTING ISSUES

Source: Thomson Reuters/Gear Up & Wolters Kluwer

Impact of Errors on IRS Statute of Limitations

The three year statute of limitations for assessing a tax deficiency is extended to six years if tax liability is understated by more than 25%. In response to losing a recent court case, the IRS extended this rule to apply to overstatements of basis in anything by more than 25%. Tax basis is used to determine gain or loss on the sale of business and investment property. It is also used to determine whether losses from pass-through entities can be deducted currently or must be carried forward. It is the taxpayer's responsibility to ensure that accurate basis records are maintained. Our firm assists in that process by advising clients regarding how basis is calculated and providing worksheets that meet IRS requirements based on client-provided data.

Nonqualified Stock Options

Brokerage firms who are mandatorily tracking basis for these investments acquired after 2012 often do not include in basis the ordinary income that was included in the employee's W-2 when the option was granted. This information needs to be tracked separately by the employee and added to basis. Our firm is available for that service if specifically requested.

TRANSPORTATION & TRAVEL EXPENSES

AUTO EXPENSES – STANDARD MILEAGE RATES AND DEPRECIATION LIMITS

2016 and 2017 standard mileage rates in lieu of actual auto expenses:

RATES PER MILE:	2016	2017
Business Use	54¢	53.5¢
Charitable Use	14¢	14¢
Medical & Moving Expense	19¢	17¢

The personal use of an employer-provided vehicle must be treated as income to the employee. One of the optional valuation methods allows each personal mile to be valued at the business standard mileage rate, but only if the fair market value of the car when first provided to the employee does not exceed $15,900 as adjusted for inflation ($17,700 for trucks and vans). The IRS defines "trucks and vans" as "passenger automobiles, minivans and SUVs built on a truck chassis." If a car worth more than $19,000 is leased for business, the lessee must include an amount in income each year from IRS tables, as an offset to the deduction for lease payments and depreciation of the vehicle.

For vehicles placed in service in 2016, the maximum depreciation allowances under the "luxury auto rules" are as follows. The 2017 rates are not yet available, although publishers project them to be the same as the 2016 rates.

Classification	First Year	Second Year	Third Year	Subsequent Years
Automobile	$3,160	$5,100	$3,050	$1,875
Light Truck or Van	$3,560	$5,700	$3,450	$2,075
Bonus Depreciation under 168(k)	$8,000	-0-	-0-	-0-

TRAVEL EXPENSE PER DIEM RATES

The 2016 simplified "high-low" per diem rates for travel in the continental U.S. (excluding Alaska and Hawaii) that employers can use to reimburse employees who are away from home overnight on business are $275 for high-cost areas, and $185 for all other areas. The $275 per day rate breaks down to $207 for lodging and $68 for meals and incidentals for high-cost areas. For low-cost areas, the breakdown is $128 and $57 respectively. The same rates are deductible on the tax returns of employees who are not reimbursed. Self-employed persons can use the per diems to substantiate meals only. They must separately substantiate lodging (cannot use $275/$185 rates). The high-low per diem rates for 2017 announced in October 2016 will increase to $282 for high-cost areas and $189 for all others. Taxpayers using per diem rates may also deduct or be reimbursed for transportation and mailing expenses. The per diem rate for the incidental expenses only deduction is $5 per day for 2016 and 2017 travel.

RETIREMENT AND HEALTH CARE PLANS

SOCIAL SECURITY AND MEDICARE

Payroll Tax Rates for Employees	**2016**	**2017**
Social Security (FICA)	6.20%	6.20%
Medicare	1.45%	1.45%
Combined	7.65%	7.65%
Taxable Wage Bases		
Social Security (FICA)	$118,500	$127,200
Medicare	No Limit	
Earnings Needed to Accrue Benefits		
Wages Needed to Earn one "Credit" (to determine benefits)	$1,260	$1,300
Earned Income Limits for Retirees Under Full Retirement Age		
Before normal retirement age	$15,720	$16,920
Year of normal retirement age	$41,880	$44,880
Medicare Part B Premiums per month	$104.90	$121.80

Medicare Premium Surcharges

Couples with adjusted gross incomes (AGIs) over $170,000 and singles with AGIs of more than $85,000 for 2014 or 2015 will owe an additional premium for 2016 and 2017 respectively. The surcharges range from $73 to $438 per month.

Types of Social Security and Medicare Benefits

Source: OSCPA Retirement Planning Conference & Tax Speaker

Retirement benefits can be obtained by workers as early as age sixty-two or delayed until as late as age seventy. The earlier the benefits are first taken, the smaller the benefit and of course, the later the age the benefits are first taken, the larger the benefit. All Americans have an age defined as their full retirement age, usually sixty-five, sixty-six, or sixty-seven, which is dependent on the individual's date of birth. A widow or widower of a covered worker may begin receiving reduced benefits as early as age sixty. To obtain minimal benefits, the retiree must have forty quarter of coverage during his or her lifetime. An individual may qualify for more than one type of benefit such as survivor's benefits as a spouse, as well as his or her own retirement benefit, but may only draw the highest benefit rather than multiple benefits. Anyone receiving benefits before their full retirement age will have an actuarial reduction in benefits. This applies to the taxpayer and any spouse or dependents who qualify on the taxpayer's account and who draw benefits prior to their own personal full retirement age. Neither immigrants nor anyone else is able to collect Social Security retirement benefits without someone paying Social Security payroll taxes into the system. However, Social Security is often confused with the Supplemental Security Income (SSI) program. SSI is a federal welfare program and no contributions, from immigrants or citizens or anyone else, is required for eligibility. Under certain conditions, immigrants can qualify for SSI benefits.

Disability benefits are provided to workers under age sixty-five who have met minimal earned-income requirements. The benefits are similar to the retirement benefits the employee would receive.

Dependent's benefits are provided to dependent or disabled children and/or parents of the deceased, retired, or disabled Social Security qualified worker based upon the deceased's work history.

Spousal (and ex-spousal if married longer than 10 years) are available if the worker is living and drawing a benefit.

Survivor's benefits are provided to the surviving spouse and dependents of a retired or disabled Social Security qualified worker based on the deceased's work history.

Health insurance under the Medicare system is available to workers who are drawing disability benefits under age 65 and all who qualify (buy may not yet be drawing) retirement benefits after age 65. Failure to enroll in the Medicare system prior to reaching age 65 may result in permanently higher Medicare premiums unless the worker remains covered under an employer's group plan.

Our professional staff is available for consultations regarding Social Security and Medicare benefit planning upon request.

TAX PLANNING TOOLS FOR RETIREMENT ACCOUNT DISTRIBUTIONS

Source: Tax Speaker by Jennings Advisory Group

Most withdrawals from qualified retirement plans must begin by April 1 of the year after the taxpayer turns 70½, or the calendar year the taxpayer retires from an employer that maintains a retirement plan for the employee.

Tool #1: In December of 2015 the PATH Act made the "direct transfer of IRA money to a charity" planning tool, retroactive to January 1, 2015. The direct transfer of money from an IRA to a charity is tax-free up to $100,000 annually, per taxpayer when it is a direct trustee-to- trustee transfer. This special rule also removes the normal 50%

of AGI limit on deductible charitable contributions by bypassing the income and related deduction limits. No charitable contribution deduction is allowed, but there is no taxable income. Also, this rule may reduce the taxable portion of Social Security benefits, because the transfer is not part of gross income. The contribution also qualifies as a required minimum distribution (RMD) for IRA withdrawal rules, which should negate the need for a taxable distribution. It is particularly beneficial to taxpayers who use the standard deduction and get no tax benefit from charitable contributions otherwise. The direct IRA to charity exception does not apply to 401-k's or corporate plans. However, a taxpayer could roll his retirement plan into an IRA and then use this tool! Of course sometimes rolling a 401-k or similar corporate account into an IRA is not a good idea, such as where the taxpayer is subject to legal proceedings, or is still working, but this simple tool opens up the planning aspect of the direct IRA to charity transfer.

Tool #2: Many retired Americans have to pay quarterly tax estimates and find them confusing and difficult to accumulate the extra cash to pay the quarterlies. These are often the same people who are required to take minimum distributions from retirement plans. Try this simple tool: because the distribution can be made all the way up until December 31 and have it apply to the whole year, take the distribution near year end, have it all apply to Federal and State withholding, and stop or reduce your quarterly payments. Because the withholding is treated as having been paid evenly throughout the year, the taxpayer does not face underpayment penalties, has an even cash flow while retired, and also meets any RMD requirements. It takes a little work to calculate, but the results are worth the effort.

Tool #3: In 2014 the IRS added a new "Qualified Longevity Annuity Contract" provision to the IRA rules at Regulation 1.401(a)(9)-6. This special tool, which should only be used by individuals with an extremely long expected lifespan into their late 80's, allows the annuity balance to be excluded from RMD calculations until the taxpayer is 85 years old. No more than 25% of the retirement account (up to $125,000) may be placed into this annuity, but as noted the break-even point on the tax savings is somewhere in the late 80's, so this secret should be used sparingly.

Tool #4: Although a 2014 court case did away with serial IRA redemptions to obtain cash from IRAs without penalty, the 60-day rule should still be discussed for short-term needs. A taxpayer may make a cash withdrawal once per year of any amount from her IRA and as long as she redeposits it into another qualified IRA within 60 days (called a rollover) there is no tax, penalty or withholding. (Mandatory withholding only applies to qualified retirement plan distributions, not IRAs). Essentially we are looking at a tax-free short-term loan from the taxpayer to herself. If she misses the 60 days of course she will pay tax on the amount, and potentially a penalty if the taxpayer is under age 59½.

Tool #5: It goes without saying that the Roth IRA is a controversial investment vehicle. Putting that decision aside let's remind ourselves that a Roth IRA held for 5 years by someone over 59 ½ is free of tax **forever** under current law, and that tax-free treatment extends to heirs. Roth IRAs should not be used for boring, conservative dividend-paying utility stocks; they should be used for the risky investments that taxpayers make. This tax-free forever treatment will shelter any really big wins from tax forever, whereas in a conventional IRA the tax will be paid at some point.

Tool #6: The backdoor Roth is a tool used by higher income Americans who are normally unable to make a Roth contribution, because their income exceeds the allowable limits. This tool allows the taxpayer to make a non-deductible IRA contribution and then convert it to a Roth IRA. Controversial, subject to Congressional change, and with some ugly traps, the backdoor Roth works, but discuss with your tax advisor before doing it.

Tool #7: For the taxpayer with a large retirement account that he wants to leave to his heirs, pull a large chunk out and buy a "no-lapse, last-to-die" insurance policy on the taxpayer (and spouse). This policy will be payable at the taxpayer's death (or the spouse's death if married) to the kids. The advantage? Any build up is tax-free, all payments are tax-free to the kids, and it avoids probate in most states.

CONTRIBUTION AND BENEFIT LIMITS FOR RETIREMENT PLANS AND HEALTH SAVINGS ACCOUNTS

The dollar limits on contributions and benefits under qualified plans are as follows.

	2016	2017
401(K) Elective Deferrals Annual Dollar Limit	$18,000	$18,000
401(K) Age 50+ Catch-up Contribution	$6,000	$6,000
SIMPLE Plan Elective Deferrals Annual Dollar Limit	$12,500	$12,500
SIMPLE Plan Age 50+ Catch-up Contribution	$3,000	$3,000
Annual Includible Compensation Limit (SEP & qualified plans)	$265,000	$270,000
Key Employee's Compensation Limit (SEP & qualified plans)	$170,000	$175,000
Highly Compensated Employee's Compensation Limit	$120,000	$120,000
Defined Contribution & SEP Annual Addition Limit	$53,000	$54,000
Defined Benefit Pension Plan Annual Benefit Limit	$210,000	$215,000
SEP Minimum Compensation Amount	$600	$600
457 Plan Elective Deferral Limit	$18,000	$18,000
Traditional IRA Contribution	$5,500	$5,500
Roth IRA Contribution	$5,500	$5,500
IRA Age 50+ Catch-up Contribution	$1,000	$1,000
HSA Contribution Limits: Family	$6,650	$6,750
Single	$3,350	$3,400
Age 55+ Extra	$1,000	$1,000
HSA Caps on Out-of-Pocket Reimbursements: Family	$12,900	$13,100
Single	$6,450	$6,550
HSA Minimum Deductible on HDHP: Family	$2,600	$2,600
Single	$1,300	$1,300
FSA Out-of-Pocket Maximum	$2,550	$2,600

ESTATE AND GIFT TAX EXEMPTION LEVELS

	2016	2017
Federal estate tax exemption	$5,430,000	$5,490,000
Annual gift tax exclusion	$14,000	$14,000
Oregon inheritance tax exemption	$1,000,000	$1,000,000

ADMINISTRATION AND REPORTING ISSUES

IRS INTEREST RATES ON TAX DEFICIENCIES AND OVERPAYMENTS/ABATEMENT

	January 1 – December 31, 2016	January 1 – March 31, 2017
Federal	4.0%	4.0%
Oregon	4.0%	5.0%

1099 INFORMATION REPORTING AND RELATED PENALTIES

Source: CCH Federal Tax Weekly

Our office is available to prepare the 1099 information returns that are required to be issued by every business or individual that pays $600 or more to an unincorporated entity for services, rent, interest, or dividends. We can provide you with a worksheet for compiling the necessary information to enable us to prepare these forms that are due by January 31, 2017. Form 1098 Mortgage Interest Statements can also be prepared from this worksheet if you change “Recipients of 1099 Income” to “Payers of Mortgage Interest.”

The June 29, 2015 *Trade Preferences Extension Act* drastically increased penalties for failure to file and failure to file correct 1099’s, W-2’s and similar information returns. The new law increases the taxpayer penalty cap for failure to file correct information returns and failure to furnish correct payee statements from $1.5 million to $3 million. The amount for each individual failure has increased from as low as $30 to as high as $1,000. Lower penalty caps that apply when the penalty is corrected within 30 days or before August 1 have also doubled and tripled to $500,000 and $1.5 million, respectively. Lower limitations for persons with gross receipts of $5 million or less have also been raised. The penalty amounts are indexed for inflation.

The penalties apply for erroneous returns, as well as, missing returns. However, the *Consolidated Appropriations Act of 2015* passed in December 2015 and discussed previously provides a safe harbor. If an error is $100 or less ($25 in the case of errors involving tax withholding) the issuer is not required to file a corrected return and no penalty will be imposed. The recipient, however, can elect to have a corrected return issued. This provision applies to returns and statements required to be filed after December 31, 2016 and is expected to reduce the number of revised 1099s from brokers that result in amended income tax returns.

INCREASE IN USER FEES FOR IRS INSTALLMENT AGREEMENTS

Source: Journal of Accountancy

The user fees taxpayers must pay to enter into an installment agreement with the IRS will change on January 1, 2017. Installment agreements allow taxpayers to pay off their tax liabilities in monthly installments. The new fee for a regular installment agreement, in which the taxpayer contacts the IRS in person, by phone, or by mail and sets up an installment agreement to make manual payments by check or via the electronic funds transfer payment system (EFTPS), will be $225 (up from $120). The $225 fee can be lowered to $107 if the taxpayer agrees to direct debits from a bank account. Taxpayers who apply online but pay by check or EFTPS will pay $149. Using the online application system at www.irs.gov and agreeing to direct debit lowers the fee to $31. The fee to restructure or reinstate an installment agreement that is in default will increase to $89. These fees are in addition to late payment penalties and interest. Therefore, it may be cheaper to finance tax payments through a credit line with another lender.

2017 PENSION COMPARISON TABLE

Source: Bob Jennings/Tax Speaker

	Traditional IRA	Roth IRA	Non-Deductible IRA	Roth 401-K	Simple IRA	SEP	Solo 401-K	401-K
Highlights	Excellent savings plan for those not covered by other plans but who have earned income	Great long-term plan that offers tax-free accumulations and withdrawals	Worst of the 3 IRAs but better than nothing	Fantastic way to save big bucks with no future taxation, but must be employer sponsored	Excellent choice for side businesses, small businesses and those with <$50k annual income. 97% employee funded	Excellent contribution limits, no 5500 make this a winner, but 100% employer funded. Voluntary contributions	The best plan for family businesses, those with only part-time employees as long as they want to fund more than a SIMPLE. Better than a SEP in many cases.	Excellent plan, partly employee funded, but watch the dreaded top-heavy rules which can make this a bad choice for some businesses.
Max. Employee Contribution	$5,500	$5,500	$5,500	$18,000	$12,500	-0-	$18,000	$18,000
Max. Employer Contribution	N/A	N/A	N/A	$54,000	$12,500	Lesser of 25% of W-2 or $54,000	Lesser of 25% of W-2 or 54,000	Lesser of 25% of W-2 or $54,000
Max. Contribution All Sources	$5,500	$5,500	$5,500	$54,000	$12,500 + 3% of W-2 Before Deferral	$54,000	$54,000	$54,000
Over Age 49 Additional Catch-Up	$1,000	$1,000	$1,000	$6,000	$3,000	N/A	$6,000	$6,000
Tax Deduction	Yes	No	No	No	Yes	Yes	Yes	Yes
Withdrawals	Taxed	Nontaxable	Earnings Taxed	Nontaxable	Taxed	Taxed	Taxed	Taxed
Earnings	Tax Deferred	Nontaxable	Tax Deferred	Nontaxable	Deferred	Deferred	Deferred	Deferred
Penalty Exceptions	Death, disability, education, 1st home, more	Death, disability, education, 1st time home, more	Death, disability, education, 1st time home, more	Death, disability, education, 1st time home, more	Most IRA exceptions	Most IRA exceptions	Most IRA exceptions	Most IRA exceptions
Form By (2017)	4/15//18	4/15/18	4/15/18	12.31/17	10/1/17	Due date + extension	12/31/17	12/31/17
Contribute By	4/15/18	4/15/18	4/15/18	Due date + Extension	Due date + Extension	Due date + Extension	Due date + Extension	Due date + Extension
Penalty Issues	10% before 59 ½	10% before 59 ½ on earnings only	10% before 59 ½	10% before 59 ½	25% 1st 2 years	10% before 59 ½	10% before 59 ½	10% before 59 ½
Tests	1-Earned Income 2-Max age 70 ½ 3-Not covered by other plan 4-If covered, must be below income limits	1-Earned income 2-Max Income under 110k single, 160k MFJ	1-Earned Income	Employer sponsored	No other active plan	No other active plan	Employer sponsored, other plans ok	Employer sponsored, other plans ok
Distributions	Start by 4/1 of year after turning 70 ½	No requirement	No requirement	Plan based Usually 70 ½	Plan based Usually 70 ½	Plan based Usually 70 ½	Later of 70 ½ or retirement	Later of 70 ½ or retirement
Bankruptcy Protection	$1,000,000 Infl. adj.	$1,000,000 Infl. adj.	$1,000,000 Infl. adj.	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
5500 Required?	No	No	No	Yes	No	No	Yes	Yes
More Information	Pub 590	Pub 590	Pub 590	Publications 560	Publications 560	Publications 560	Publications 560	Publications 560

For more information, visit the following websites:
http://www.irs.gov/publications/p560or590/index.html

DOCUMENTATION GUIDE FOR CHARITABLE CONTRIBUTIONS

Source: Thomson Reuters/PPC

PURPOSE: This table describes the types of documentation required to substantiate various types of charitable contributions made by individual taxpayers. Failing to maintain the proper documentation generally results in the donation being nondeductible.

TYPE OF DONATION	**AMOUNT GIVEN IN A SINGLE DONATION**			
	Less than $250	**$250 to $500**	**Over $500, up to $5,000**	**Over $5,000**
Cash	• Bank record or written receipt from charity showing donee name, date, and amount of contribution unless donation is to a charitable remainder trust	• Bank record or written receipt from charity showing donee name, date, and amount of contribution • Acknowledgment **a**	• Bank record or written receipt from charity showing donee name, date, and amount of contribution • Acknowledgment **a**	• Bank record or written receipt from charity showing donee name, date, and amount of contribution • Acknowledgment **a**
Noncash:				
1. Publicly traded stock	• Receipt or reliable written records **b**	• Acknowledgment **a** • Reliable written records **b**	• Acknowledgment **a** • Reliable written records **b c**	• Acknowledgment **a** • Reliable written records **b c**
2. Nonpublicly traded stock	• Receipt or reliable written records **b**	• Acknowledgment **a** • Reliable written records **b**	• Acknowledgment **a** • Reliable written records **b c**	• Acknowledgment **a** • Reliable written records **b c** • Qualified appraisal **d** • Declaration of appraiser and done acknowledgment (Form 8283, Section B)
3. Artwork	• Receipt or reliable written records **b**	• Acknowledgment **a** • Reliable written records **b**	• Acknowledgment **a** • Reliable written records **b c**	• Acknowledgment **a** • Reliable written records **b c** • Qualified appraisal **e** • Declaration of appraiser and donee acknowledgment (Form 8283, Section B)
4. Vehicles, boats, and airplanes	• Receipt or reliable written records **b**	• Acknowledgment **a** • Reliable written records **b**	• Acknowledgment **f**	• Acknowledgment **f** • Qualified appraisal if deduction is FMV
5. All other noncash donations	• Receipt or reliable written records **b**	• Acknowledgment **a** • Reliable written records **b**	• Acknowledgment **a** • Reliable written records **b c**	• Acknowledgment **a** • Reliable written records **b c** • Qualified appraisal • Declaration of appraiser and donee acknowledgment (Form 8283, Section B)
6. Payroll deduction	• Paystub, Form W-2, or other record from employer • Pledge card from donee showing donee's name	• Paystub, Form W-2 or other reliable written record from employer • Documentation from charity **g**	• Paystub, Form W-2 or other reliable written record from employer • Documentation from charity **g**	• Paystub, Form W-2 or other reliable written record from employer • Documentation from charity **g**
7. Out-of-pocket expenses while serving as a volunteer	• Receipt, cancelled check, or other reliable written records	• Receipt, cancelled check, or other reliable written records • Acknowledgment **h**	• Receipt, cancelled check, or other reliable written records • Acknowledgment **h**	• Receipt, cancelled check, or other reliable written records • Acknowledgment **h**