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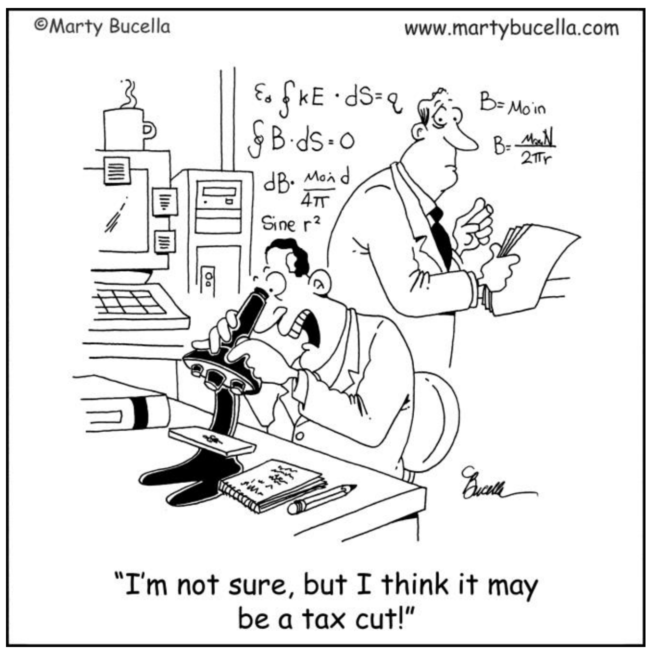
2017–18 INCOME TAX BULLETIN

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

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



OUTLINE

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Section	Topic	Applicability	Pages
OTHER TAX DEVELOPMENTS	**IRC Section 179 Expense Election** **IRC Section 168(k) Bonus Depreciation** **Partnership Regulations** • Centralized Partnership Audit Rules • Tax Matters Partner Designation • Late Filing Penalty	*Small Business*	10 10 11-12
TRANSPORTATION AND TRAVEL EXPENSES	**Auto Expenses** • Standard Mileage Rates • Depreciation Limits **Travel Expense per Diem Rates**	*Small Business*	12-13 13
RETIREMENT AND HEALTH CARE PLANS	**Social Security and Medicare** • Payroll Tax Rates for Employers • Taxable Wage Bases • Earnings Needed to Accrue Benefits • Earned Income Limits for Retirees under Full Retirement Age • Medicare Premiums and Surcharges **Contribution and Benefit Limits for Retirement Plans and Health Savings Accounts** **Estate and Gift Tax Exemption Levels**	*Individuals* *Individuals And All Employers*	13 14
ADMINISTRATION AND REPORTING ISSUES	**IRS Interest Rates on Tax Deficiencies and Overpayment/Abatement** **1099 Information Reporting and Related Penalties** **Increase in User Fees for IRS Installment Agreements**	*All Taxpayers*	15 15 15
SUPPLEMENTAL CHARTS	**2018 Pension Comparison Table** **Charitable Contributions Documentation**	*All Employers* *Individuals*	16 17

TAX CUT AND JOBS ACT OF 2017

Source: Thomson Reuters Checkpoint and Wolters Kluwer Commerce Clearing House

In December 2017 President Trump signed this tax reform measure which is generally effective in tax year 2018. In order to stay within budgetary parameters, many of the provisions are temporary, particularly those impacting individuals.

INDIVIDUALS

Tax Rates

The Act carries temporary tax rates of 10, 12, 22, 24, 32, 35 and 37 percent after 2017 to replace the old rates of 10, 15, 25, 28, 33, 35, and 39.6 percent. The Act also provides four tax rates for estates and trusts: 10%, 24%, 35% and 37%. The rate changes in the final Act expire after 2025. The Act includes income ranges for the respective brackets.

Rate	Married Filing Joint	Single Return
10%	$0 - $19,050	$0 - $9,525
12%	$19,050 - $77,400	$9,525 - $38,700
22%	$77,400 - $165,000	$38,700 - $82,500
24%	$165,000 - $315,000	$82,500 - $157,500
32%	$315,000 - $400,000	$157,500 - $200,000
35%	$400,000 - $600,000	$200,000 - $500,000
37%	Over $600,000	Over $500,000

Rate schedules for “Head of Household”, “Married Filing Separately”, and “Estates and Trusts” are available upon request.

The Act does not change the current tax treatment of qualified dividends and capital gains. It also does not repeal the Affordable Care Act’s taxes, except for the penalty under the “individual mandate” discussed later. Left untouched are the net investment income (NII) tax, the additional Medicare tax, the medical device excise tax, and more.

Standard Deduction Increased

The Act calls for a near doubling of the standard deduction. For tax years beginning in 2018, it increases the standard deduction to $24,000 for married individuals filing a joint return, $18,000 for head-of-household filers, and $12,000 for all other individuals. The amounts are indexed for inflation (using chained CPI) for tax years beginning after 2018. This is a change in the measure of inflation to one that grows at a slower rate than previously used. All deduction increases are temporary and scheduled to end after December 31, 2025. Under previous law, the standard deduction for 2018 had been set at $13,000 for joint filers, $9,550 for heads-of-households, and $6,500 for all other filers. The additional standard deduction for the elderly and the blind ($1,300 for married taxpayers, $1,600 for single taxpayers) is retained. One goal of a higher standard deduction is to simplify tax filing by reducing the volume of taxpayers who would do better by itemizing deductions. Of course, that group would realize less of a net tax benefit than those taxpayers who do not now itemize. Supporters of the increased standard deduction argue that, in addition to simplification, it effectively creates a more broadly applicable “zero tax bracket” for taxpayers earning less than the standard deduction amount. For the vast majority of married taxpayers filing jointly, only those with allowable mortgage interest, state income and local income / property taxes (up to $10,000), and charitable deductions that exceed $24,000 would claim them as itemized deductions (absent extraordinary medical expense).

Personal Exemptions Suspended

The Act eliminates the deduction for personal exemptions and the personal exemption phase-out through 2025. That repeal reduces the net benefit of the increased standard deduction for most taxpayers for the same time period.

Child Tax Credit

The Act temporarily increases the child tax credit from $1,000 to $2,000 per qualifying child. Up to $1,400 of that amount is refundable. The Act also raises the adjusted gross income (AGI) phase-out thresholds, starting at AGI of $400,000 for joint filers and $200,000 for all others. The child tax credit is further modified to provide for a $500 nonrefundable credit for qualifying dependents other than the taxpayers' children. In contrast to a deduction, the enhanced child credit is intended to lower overall tax liability for middle-class families.

Deductions and Exclusions

The Act makes significant changes to some popular individual deductions and exclusions. Many of the changes, however, are temporary, generally ending after 2025.

Mortgage Interest Deduction. The Act limits the mortgage interest deduction to interest on $750,000 of acquisition indebtedness ($375,000 in the case of married taxpayers filing separately), for tax years beginning after December 31, 2017 and before January 1, 2026. For acquisition indebtedness incurred before December 15, 2017, the Act allows current homeowners to keep the current limitation of $1 million ($500,000 for married taxpayers filing separately). The Act also allows taxpayers to continue to include first mortgage interest on second homes, but within those lower dollar caps. However, no interest deduction will be allowed for interest on home equity indebtedness. Note that NO CHANGE was made to any of the requirements for the capital gain exclusion on the sale of a principal residence.

State and Local Taxes. The Act limits annual itemized deductions for all nonbusiness state and local taxes deductions, including property taxes, to $10,000 ($5,000 for married taxpayers filing a separate return). Sales taxes may be included as an alternative to claiming state and local income taxes. Prepayment of taxes imposed for the current year is allowed as a tax-planning strategy, but not the prepayment of taxes imposed in a future year.

Miscellaneous Itemized Deductions. The Act temporarily repeals all miscellaneous itemized deductions that are subject to the two-percent floor under previous law. This floor effectively precluded many taxpayers from realizing a benefit anyway.

Medical Expenses. The Act temporarily enhances the medical expense deduction. The Act lowers the threshold for the deduction to 7.5 percent of adjusted gross income (AGI) for tax years 2017 and 2018, regardless of the taxpayers' age.

Charitable Contributions Deduction Limitation Increased. The deduction for an individual's charitable contributions is limited to prescribed percentages of the taxpayer's "contribution base". Under pre-Act law, the applicable percentages were 50%, 30% or 20%, and depended on the type of organization to which the contribution was made, whether the contribution was made "to" or merely "for the use of" the donee organization, and whether the contribution consisted of capital gain property. The 50% limitation applied to public charities and certain private foundations. For contributions made in tax years beginning after December 31, 2017 and before January 1, 2026, the 50% limitation is increased to 60%. Contributions exceeding any of the ceilings are generally allowed to be carried forward and deducted for up to five years, subject to the later year's ceiling. This represents no change in the carryforward provision.

No Deduction for Amounts Paid for College Athletic Seating Rights. For contributions made in tax years beginning after December 31, 2017, no charitable deduction is allowed for any payment to an institution of higher education in exchange for which the payor receives the right to purchase tickets or seating at an athletic event.

Moving Expenses. Under pre-Act law, taxpayers could claim a deduction and exclude employer reimbursements for moving expenses incurred in connection with starting a new job if the new workplace was at least 50 miles farther from a taxpayer's former residence than the former place of work. For tax years beginning after December 31, 2017 and before January 1, 2026, the deduction and exclusion for moving expenses are suspended, except for members of the Armed Forces on active duty who move pursuant to a military order and permanent change of station.

Phase-Out of Itemized Deductions Suspended. Under pre-Act law, higher-income taxpayers who itemize their deductions are subject to a limitation on these deductions. For tax years beginning after December 31, 2017 and before January 1, 2026 this phase-out is suspended.

Alimony. The Act repeals the deduction for alimony payments and their inclusion in the income of the recipient. To give taxpayers time to adjust to this new balance in assessing benefits and burdens, the new rules will apply only to divorce or separation instruments executed or modified after December 31, 2018.

Education Provisions

The Act retains the student loan interest deduction. It also modifies section 529 plans and ABLE accounts. The Act does not overhaul the American Opportunity Tax Credit or repeal the exclusion for interest on U.S. Savings Bonds used for higher education, as originally proposed. The exclusion for graduate student tuition waivers is retained. However, the Act does not renew the above-the-line deduction for education expenses that expired at the end of 2016. Certain student loans that are discharged on account of death or disability from 2018-2025 are excluded from income.

Retirement Plan Provisions

The Act generally retains the current rules for 401(k) and other retirement plans. However, it repeals the rule allowing taxpayers to recharacterize Roth IRA contributions as traditional IRA contributions to unwind the Roth conversion. Rules for hardship distributions are modified, among other changes.

Alternative Minimum Tax

The Act retains the alternative minimum tax (AMT) for individuals with modifications. It temporarily increases (through 2025) the exemption amount to $109,400 for joint filers ($70,300 for others, except trusts and estates). It also raises the exemption phase-out levels so that the AMT applies to an income level of $1 million for joint filers ($500,000 for others). These amounts are all subject to annual inflation adjustment.

Federal Estate Tax

The Act does <u>not</u> repeal the estate tax, but rather doubles the estate and gift tax exclusion amount for restates of decedents dying and gifts made after December 31, 2017 and before January 1, 2026. The generation-skipping transfer (GST) tax exemption is also doubled. The current maximum federal estate tax rate is 40 percent with an inflation-adjusted $5 million exclusion ($5.49 million in 2017), which married couples can combine for a $10 million exclusion ($10.98 million in 2017). The new exclusion amounts will now allow married couples to exempt up to $22 million for 2018 (after adjustment for inflation) from any estate or gift tax. Heirs, however, will continue to receive a "stepped-up, date of death" basis for inherited assets for purposes of any subsequent sale.

Affordable Care Act Individual Mandate

The Act repeals the individual shared responsibility requirement. This change is effective for penalties assessed after 2018. For 2017 the IRS will not consider a return complete and accurate if the taxpayer does not report full-year coverage, claim a coverage exemption, or report a shared responsibility payment. So, our firm will continue to require proof of coverage for 2017 returns. Forms 1095-A, B, or C will be issued to you for that purpose, but you may file prior to receiving them, because insurers have until March 2, 2018 to issue them.

BUSINESSES

Corporate Tax Rates

The Act calls for a 21-percent tax rate on C corporations beginning in 2018 and makes the new rate permanent. The maximum corporate tax rate in 2017 tops out at 35 percent, although many corporations now pay an effective tax rate that is considerably less. Under the Act, the 80-percent and 70-percent dividends received deductions per the law are reduced to 65-percent and 50-percent, respectively. Also, the AMT on corporations is repealed.

Bonus Depreciation

The Act increases the Code Sec. 168(k) 50-percent "bonus depreciation" allowance to 100 percent for property placed in service after September 27, 2017, and before January 1, 2023 (January 1, 2014, for longer production period property and certain aircraft). A 20-percent annual phase-down is scheduled to kick in at that point. The Act also removes the requirement that the original use of qualified property must commence with the taxpayer, thus allowing bonus depreciation on the purchase of used property.

Vehicle Depreciation

The Act raises the cap placed on depreciation of business-use vehicles. The new caps will be $10,000 for the first year a vehicle is placed in service (up from a current level of $3,160); $16,000 for the second year (up from $5,100); $9,600 for the third year (up from $3,050); and $5,760 for each subsequent year (up from $1,875) until costs are fully recovered. The new, higher limits apply to vehicles placed in service after December 31, 2017, and for which additional first-year bonus depreciation is not claimed. The limitations are indexed for inflation for passenger automobiles placed in service after 2018.

Section 179 Expensing

The Act enhances Code Sec. 179 expensing by increasing the dollar limitation to $1 million and the investment limitation to $2.5 million. Although the differences between bonus depreciation and Code Sec. 179 expensing would now be narrowed if both offer 100-percent write-offs for new or used property, some advantages and disadvantages for each would remain. For example, Code Sec. 179 property is subject to recapture if business use of the property during a tax year falls to 50 percent or less; but Code Sec. 179 allows a taxpayer to select for expensing particular qualifying assets within any asset class, whereas Code Sec. 168(k) requires an election for all assets within a class.

Interest Deductions

The Act generally caps the deduction for net interest expenses at 30 percent of adjusted taxable income, among other criteria. Exceptions would exist for small businesses, including an exemption for businesses with average gross receipts of $25 million or less. This provision is an attempt to "level the playing field" between businesses that capitalize through equity and those that borrow.

Other Deductions and Credits

Numerous business tax preferences are eliminated. These include the Code Sec. 199 domestic production activities deduction, non-real property like-kind exchanges, and more. Additionally, the rules for business meals are revised, as are the rules for the rehabilitation credit. The Act leaves the research and development credit in place, but requires five-year amortization\ of research and development expenditures. The Act also creates a temporary credit for employers paying employees who are on family and medical leave.

Pass-Through Businesses

Owners of partnerships, S corporations, and sole proprietorships – as "pass-through" entities – pay tax at the individual rates, with the highest rate at 39.6 percent under pre-Act law. The Act allows a temporary deduction in an amount equal to 20 percent of qualified income of pass-through entities, subject to a number of limitations and qualifications, including a threshold amount above which both the limitation on specified service businesses (primarily professionals) and a wage limit are phased in, applicable to taxpayers with taxable income above certain threshold amounts. The Act also contains rules that prevent pass-through owners—particularly service providers such as accountants, doctors, lawyers, etc.—from converting their compensation income taxed at higher rates into profits taxed at the lower rate, by excluding service industries from eligibility for the deduction.

Net Operating Losses

The Act modifies current rules for net operating losses (NOLs). Generally, NOLs are limited to 80 percent of taxable income for losses arising in tax years beginning after December 31, 2017. The Act also denies the carryback for NOLs in most cases while providing for an indefinite carryforward, subject to the percentage limitation.

EXEMPT ORGANIZATIONS

The Act does not modify or repeal the so-called "Johnson amendment", which generally restricts Code Sec. 501(c)(3) organizations from political campaign activity.

IRS ADMINISTRATION

The Act extends from nine months to two years the period for bringing a civil action for wrongful levy. It does not prohibit increases in IRS user fees, as proposed by the original Senate bill.

INTERNATIONAL

The Act moves the United States to a territorial system. It creates a dividend-exemption system for taxing U.S. corporations on the foreign earnings of their foreign subsidiaries when the earnings are distributed. The foreign tax credit rules are modified, along with the Subpart F rules. The look-through rule for related controlled foreign corporations is made permanent, among other changes. A portion of deferred overseas-held earnings and profits (E&P) of subsidiaries will be taxed at a reduced rate of 15.5 percent for cash assets and 8 percent for illiquid assets. Foreign tax credit carryforwards will be fully available and foreign tax credits triggered by the deemed repatriation would be partially available to offset the U.S. tax. All of these provisions are intended to provide an incentive for businesses to repatriate existing earnings and not shift operations overseas in the future.

COMPARISON OF TAX CUTS AND JOBS ACT WITH PRIOR LAW

	Prior Law (2017)	Tax Cut & Jobs Act (2018)
Child tax credit	$1,000 (refundable up to $1,000)	$2,000 (refundable up to $1,400)
Individual rates	10, 15, 25, 28, 33, 35, 39.6%	10, 12, 22, 24, 32, 35, 37%
Standard deduction	MFJ: $12,700; S: $6,350; HH: $9,350	MFJ: $24,000; S: $12,000; HH: $18,000
C corporation rate	35% maximum rate	21% flat rate
Pass-through income	Same as individual rates	20% deduction
Alternative minimum tax	Individual: 26, 28%; Corp: 20%	Ind: exemption increased; Corp: repealed
Personal exemptions	$4,050	Suspended
State and local taxes	Deductible	Maximum $10,000 deduction
Mortgage interest	$1 million limit	$750,000 limit

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 2015-17is extended for any plan year after 2016.

OREGON TAX LAW CHANGES

Source: Oregon Department of Revenue

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 2017 the inflation-adjusted limits are $4,660 for taxpayers who file a joint return and $2,330 for all others.

SURPLUS REFUND "KICKER" CREDIT

The 2016 'kicker" is a refundable personal income tax credit equal to the kicker percentage (5.6%) x 2016 tax liability before all credits except the credit for taxes paid to another state. It is claimed on the 2017 income tax return in the section for tax payments. The taxpayer must have incurred a 2016 income tax liability to create a kicker credit, but need not have a 2017 tax liability to use the credit, since it is refundable.

OREGON RETIREMENT SAVINGS PLAN

- Began 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.

RURAL HEALTH PRACTITIONER TAX CREDIT CHANGES

The Oregon legislature changed the eligibility criteria and sunset date for tax years after 2017.

- Practitioners with AGI of $300,000 or more for the tax year are ineligible for the credit.
- The program's sunset date is December 31, 2021.
- Eligible taxpayers may not claim the credit for more than a total of ten years beginning January 1, 2018.

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 limitations for 2017 and 2018 are $510,000 and $1,000,000, respectively with $2,030,000 and $2,500,000 investment ceilings. These limits were set by the *2015 Protecting Americans from Tax Hikes Act* and *2017 Tax Cuts and Jobs Act* discussed earlier. 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. Orchards and vineyards (including capitalized planting costs) qualify, but not until the year in which the fruit is first harvested. Recent legislation added qualifications 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 2027 as part of the *Tax Cuts and Jobs Act of 2017*. The previous rate of 50% was increased to 100% effective September 28, 2017 and phases down at the rate of 20% per year starting in 2023. Extension beyond 2027 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 equipment, building or leasehold improvement with a cost recovery period by statute of no more than 20 years. Equipment acquired prior to September 28, 2017 must be new (not used). Nevertheless, additional first-year bonus depreciation applicable to vehicles is limited to $8,000, whether or not 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.

PARTNERSHIP REGULATIONS

Source: Tax Speaker

The following three new or amended federal rules for partnerships are effective January 1, 2018. **They require elections by the partners and possible amendment of partnership or LLC operating agreements.**

Centralized Partnership Audit Rules

There are new "Centralized Audit Rules" effective January 1, 2018 which enhance the ability of the IRS to collect taxes from entities that are taxed as partnerships.

In order to avoid the highest individual tax rate on audit adjustments and liability to new partners for audit adjustments from years prior to their membership, qualified small partnerships may want to take the following actions:

- **Annually elect out of the new rules**
- **Modify their partnership agreements – talk to their partnership attorney**

Important provisions of the new rules include:

- Partnership audits will be completed at the partnership level.
- Income tax, interest, and penalties will be assessed to the partnership at the partners' highest possible tax rate under law.
- The assessment will apply to the year in which the audit occurs, not the prior year under audit, regardless of changes in ownership since the audit year.
- The rules apply uniformly to all types of income.
- Individual partners have no opportunity to argue their particular situation.

Presumably the IRS would follow up with partners, but there is no guidance on that issue yet.

Three elections are available to escape the new partnership audit rules.:

1. "Partnership opt out" election – made annually on the partnership's timely filed income tax return
2. "Pull-down procedure" election – elected at the time of the audit
3. "Push-out procedure" election – elected at the time of the audit

Details re each election follow:

Election 1 – Partnership Opt Out

- Must be made annually by the partnership with its timely filed federal income tax return
- Must have no more than 100 partners
- No partners may be trusts or other partnerships
- Must disclose for each partner the individual names, tax id # and an affirmative statement of eligibility as a partner

Election 2 – Pull-Down Procedure

- Made at the time of audit if Election 1 was not made when original return was filed
- Partnership elects to have adjustments applied to one or more partners
- Partnership adjustment occurs in current year but partner amends return for audit year
- Partnership adjustment reduced to extent partner(s) claim income and pay tax
- Amended returns for year audited must be filed within 45 days of final assessment regardless of statute of limitations
- Strict IRS compliance rules to ensure all tax is paid
- Difficult to enforce if old partners are gone

Election 3 – Push-Out Procedure

- Made at the time of audit if Election 1 was not made when original return was filed
- Partnership elects to have adjustments applied to one or more partners on current year returns via K-1
- Higher penalty rate applies
- Makes sense if all partners in audit year and current year are same and no one has higher income

WE STRONGLY RECOMMEND ELECTION 1, which requires an affirmative statement from each partner, so you cannot make that election without it. Elections 2 or 3 are available upon audit if election 1 was not made with the return. For most (but not all) small partnerships, election 1 will be preferable administratively. **We suggest that the partners discuss this issue with the partnership attorney and decide whether to amend the partnership agreement to require each partner to sign election 1 annually.**

Tax Matters Partner Designation

- The new rules require a "partner representative" who:
  - Does NOT have to be a partner (manager or representative may act)
  - Identify annually (may change within 30 days of audit notice)
  - Has great power and liability in this position
  - Handles all tax-related decisions and correspondence with the IRS
- If not identified by the partnership, the IRS may designate the representative upon audit.
- Individual partners lose all rights and notice (unless electing out as previously noted).
- **We recommend that you examine and request that your attorney modify existing partnership agreements as needed to:**
  - Specify how this representative is determined and
  - Define the representative's duties and responsibilities

Late Filing Penalty for Partnership Federal Income Tax Returns

- This penalty has been increased to $200 per partner, per month.
- The new rules also eliminate the "small partnership" exception that previously allowed partnerships to file after the partnership due date but prior to the due date of the partners' returns.
- The only penalty relief now available is:
  - First time penalty abatement waiver
  - Reasonable cause in subsequent years – subject to IRS approval.

TRANSPORTATION & TRAVEL EXPENSES

AUTO EXPENSES – STANDARD MILEAGE RATES AND DEPRECIATION LIMITS

2017 and 2018 standard mileage rates in lieu of actual auto expenses:

RATES PER MILE:	2017	2018
Business Use	53.5¢	54.5¢
Charitable Use	14¢	14¢
Medical & Moving Expense	17¢	18¢

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 ($17,800 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 2017, the maximum depreciation allowances under the “luxury auto rules” are as follows.

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-
The rates applicable to vehicles purchased after 2017 and for which no bonus depreciation is claimed under Code Sec. 168(k) are:				
All Classes	$10,000	$16,000	$9,600	$5,760

TRAVEL EXPENSE PER DIEM RATES

The 2017 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 $282 for high-cost areas, and $189 for all other areas. The $282 per day rate breaks down to $214 for lodging and $68 for meals and incidentals for high-cost areas. For low-cost areas, the breakdown is $132 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 $282/$189 rates). The high-low per diem rates for 2018 announced in October 2017 will increase to $284 for high-cost areas and $191 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 2017 and 2018 travel.

RETIREMENT AND HEALTH CARE PLANS

SOCIAL SECURITY AND MEDICARE

Payroll Tax Rates for Employees	**2017**	**2018**
Social Security (FICA)	6.20%	6.20%
Medicare	1.45%	1.45%
Combined	7.65%	7.65%
Taxable Wage Bases		
Social Security (FICA)	$127,200	$128,700
Medicare	No Limit	
Earnings Needed to Accrue Benefits		
Wages Needed to Earn one “Credit” (to determine benefits)	$1,300	$1,320
Earned Income Limits for Retirees Under Full Retirement Age		
Before normal retirement age	$16,920	$17,040
Year of normal retirement age	$44,880	$45,360
Medicare Part B Premiums per month	$121.80	$134.00

Medicare Premium Surcharges

Couples with AGIs over $170,000 and singles with more than $85,000 of AGI for 2015 or 2016 owe an additional premium for 2017 and 2018 respectively. The surcharges range from $53 to $295 per month.

CONTRIBUTION AND BENEFIT LIMITS FOR RETIREMENT PLANS AND HEALTH SAVINGS ACCOUNTS

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

	2017	2018
401(K) Elective Deferrals Annual Dollar Limit	$18,000	$18,500
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)	$270,000	$275,000
Key Employee’s Compensation Limit (SEP & qualified plans)	$175,000	$175,000
Highly Compensated Employee’s Compensation Limit	$120,000	$120,000
Defined Contribution & SEP Annual Addition Limit	$54,000	$55,000
Defined Benefit Pension Plan Annual Benefit Limit	$215,000	$220,000
SEP Minimum Compensation Amount	$600	$600
457 Plan Elective Deferral Limit	$18,000	$18,500
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	$6,750	$6,900
Single	$3,400	$3,450
Age 55+ Extra	$1,000	$1,000
HSA Caps on Out-of-Pocket Reimbursements: Family	$13,100	$13,300
Single	$6,550	$6,650
HSA Minimum Deductible on HDHP: Family	$2,600	$2,700
Single	$1,300	$1,350
FSA Out-of-Pocket Maximum	$2,600	$2,700

ESTATE AND GIFT TAX EXEMPTION LEVELS

	2017	2018
Federal estate tax exemption	$5,490,000	$11,200,000
Annual gift tax exclusion	$14,000	$15,000
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, 2017	January 1 – March 31, 2018
Federal	4.0%	4.0%
Oregon	5.0%	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, 2018. Form 1098 Mortgage Interest Statements can also be prepared from this worksheet if you change “Recipients of 1099 Income” to “Payers of Mortgage Interest.”

Recent legislation drastically increased penalties for failure to file correct 1099’s, W-2’s and similar information returns. The penalty cap for failure to file correct information returns and failure to furnish correct payee statements increased from $1.5 million to $3 million. The amount for each individual failure 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, there is 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.

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 increased 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), is $225. 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 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 increased 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.

2018 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	$18,500	$12,500	-0-	$18,500	$18,500
Max. Employer Contribution	N/A	N/A	N/A	$54,000	$12,500	Lesser of 25% of W-2 or $55,000	Lesser of 25% of W-2 or 55,000	Lesser of 25% of W-2 or $55,000
Max. Contribution All Sources	$5,500	$5,500	$5,500	$55,000	$12,500 + 3% of W-2 Before Deferral	$55,000	$55,000	$55,000
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 (2018)	4/15//19	4/15/19	4/15/19	12.31/18	10/1/18	Due date + extension	12/31/18	12/31/18
Contribute By	4/15/19	4/15/19	4/15/19	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**