

On Line

Bookkeeping & Tax Service

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2016 Year End Client Newsletter

It's that time of year again! The holidays are here and tax time is just around the corner.

As you can see, the newsletter has taken on a slightly new look this year. It contains important information on the ongoing IRS scams, upcoming refund delays, and has answers to some of the most commonly asked questions. We have also added a section titled YOUR HEALTH AND YOUR TAXES that covers several of the health related tax items that many taxpayers deal with. Please read through it and let us know what you think.

For those of you who came in for an appointment last year, your prescheduled appointment card for this year is enclosed. If your schedule has changed and this date and time is no longer convenient, please give us a call and we'd be happy to reschedule your appointment for you.

Each year we get several calls for reminders of what to bring to the tax appointments so we have added a checklist on the last page of this newsletter and also have tax organizers available that can be sent by email or mail upon request. If you'd like one sent to you just give us a call or send us an email and let us know if you'd prefer paper or pdf and we'll get it out to you.

We realize that you have a choice when it comes to tax preparation and we greatly appreciate the opportunity to work with you.

All of us here at On Line Bookkeeping & Tax Service wish you and your family the best of everything this holiday season has to offer!



It's Tax Time



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INSIDE THIS ISSUE

Filing Deadlines	2
Refund Delays.....	2
Kids worked last year	2
IRS Scams continue.....	3
Beware of Fake IRS Notices	3
YOUR HEALTH AND YOUR TAXES	
ACA Penalties Increase	4
Premium Tax Credits	4
Added Benefits of HSA's	5
S-CCorp Health Insurance	5
.....5 Deductible Medical Expenses	5
.....5 Self-employed Health Ins.....	5
Flex Spending Accounts (FSA).....	5
Retired Public Safety	5
Tax Appointment Checklist.	6
Additional Topics on Website. 6	



IMPORTANT IRS FILING DEADLINES

Individual income tax returns: **April 18, 2017**
 S-Corporations/Partnerships/Trusts: **Mar. 15, 2017**
 C- Corps: **April 18, 2017** (now the same as individuals)
 Tax Exempt Organizations: **May 15, 2017** (Calendar Year)
 1099-MISC: **Jan. 31, 2017** (*NEW DATE: 1096 and Copies A to IRS)
 FBAR: **April 18, 2017** (moved up from June 30th)

TAX TIDBITS

Procrastination

is like a credit card: it's a lot of fun until you get the bill.

~Christopher Parker

Filing Status	Standard Deduction
Single / MFS	\$6,300
Married filing Jointly	\$12,600
Head of Household	\$9,300
Personal Exemption:	
\$4,050	
2016 Mileage Rates	
Business	\$0.54
Medical / Moving	\$0.19
Charitable	\$0.14
IRA Contribution Limits	
Traditional / Roth (combined)	\$5,500
Age 50 or over	\$6,500
Elective Deferral Limits	
401(K), 403(b), most 457 plans, and TSP	\$18,000 +\$6,000 catch-up (50 & over)
SIMPLE—IRA	\$12,500 +\$3,000 catch-up (50 & over)
SEP—IRA	Lesser of 25% of compensation or \$53,000

IRS WARNS OF 2017 TAX REFUND DELAYS

“We don’t want people caught by surprise if they get their refund a few weeks later than previous years,” said IRS Commissioner John Koskinen.

The two primary reasons for the delay are:

- 1) A new tax law effective January 1, 2017 requires the IRS to hold refunds a few weeks for some early filers who claim the **Earned Income Tax Credit (EITC)** and the **Additional Child Tax Credit**. The IRS has to hold the entire refund, not just the portion associated with those credits, until at least February 15th.
- 2) The rise in identity theft is causing the IRS and state tax authorities to spend additional time reviewing returns to protect against fraud.

“We want people to be aware we are taking additional steps to protect taxpayers from identity theft, and that sometimes means the real taxpayers face a slight delay in their refunds,” Koskinen said.

OUR SON/DAUGHTER WORKED LAST YEAR... HOW DOES IT EFFECT OUR TAX RETURN?

Even if your son or daughter worked during the year, it’s likely that you may still be able to claim them as a dependent especially if they are still in school. It’s important to note that kids age 19-23 must be full time students for at least half the year or have earned less than \$4,050 to continue to be claimed as a dependent on your return. If they will be filing their own returns and you are planning to claim them as a dependent **remind them to check the box that says that they will be claimed as a dependent on another return.** Failing to do so will result in an e-file rejection of your return.





IRS SCAMS CONTINUE WITH INCREASED INTENSITY

We have received dozens of panicked phone calls from our clients over the last year after they have received a threatening phone call from the “IRS” and many of us here in the office have received these calls numerous times as well.

These callers may demand money or may say you have a refund due and try to trick you into sharing private information. These con artists can sound convincing when they call. They may know a lot about you, and they usually alter the caller ID to make it look like the IRS is calling. They use fake names and bogus IRS identification badge numbers. If you don’t answer, they often leave an “urgent” callback request.

“These telephone scams are being seen in every part of the country, and we urge people not to be deceived by these threatening phone calls,” IRS Commissioner John Koskinen said. “We have formal processes in place for people with tax issues. The IRS respects taxpayer rights, and these angry, shake-down calls are not how we do business.”

The IRS reminds people that they can know pretty easily when a supposed IRS caller is a fake. Here are five things the scammers often do but the IRS will not do. Any one of these five things is a tell-tale sign of a scam.

The IRS will never:

1. Call to demand immediate payment, nor will we call about taxes owed without first having mailed you a bill.
2. Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe.
3. Require you to use a specific payment method for your taxes, such as a prepaid debit card.
4. Ask for credit or debit card numbers over the phone.
5. Threaten to bring in local police or other law-enforcement groups to have you arrested for not paying.

If you get a phone call from someone claiming to be from the IRS and asking for money, here’s what you should do:

- If you know you owe taxes or think you might owe, call the IRS at 1.800.829.1040. The IRS workers can help you with a payment issue.
- If you know you don’t owe taxes or have no reason to believe that you do, report the incident to the Treasury Inspector General for Tax Administration (TIGTA) at 1.800.366.4484 or at www.tigta.gov.
- You can file a complaint using the [FTC Complaint Assistant](#); choose “Scams and Rip-Offs” and then “Impostor Scams.” If the complaint involves someone impersonating the IRS, include the words “IRS Telephone Scam” in the notes.

Remember, too, **the IRS does not use unsolicited email, text messages or any social media to discuss your personal tax issue.** For more information on reporting tax scams, go to www.irs.gov and type “scam” in the search box.

BEWARE OF FAKE IRS TAX BILL NOTICES

This scam may arrive by email, as an attachment, or by mail. It has many signs of being a fake:

- The CP2000 notices appear to be issued from an Austin, Texas, address;
- The letter says the issue is related to the Affordable Care Act and requests information regarding 2014 coverage;
- The payment voucher lists the letter number as 105C;
- Requests checks made out to I.R.S. and sent to the “Austin Processing Center” at a post office box.

****Please remember... any time you receive a notice from any state or federal tax agency be sure to give us a copy as soon as possible before making any payments.**

YOUR HEALTH AND YOUR TAXES



AFFORDABLE CARE ACT (ACA) — PENALTIES INCREASE

For those who did not have a full year of health insurance coverage in 2016, the penalty for the months of non-coverage has once again increased this year.

Calculating the penalty: The monthly penalty amount is equal to 1/12 of the **greater of:** 1) a flat dollar amount; or 2) a percentage of the taxpayer(s) income.

The flat dollar amount is the **lesser of:** 1) \$695 per adult and \$347.50 per child, or 2) a maximum of \$2,085 (300% of \$695)

The percentage amount is **2.5%** of the household income that exceeds the tax filing threshold for your filing status (generally \$10,350 for singles, \$20,700 for married joint-filing couples, and \$13,350 for heads of households), up to a maximum of the total yearly premium for the national average price of a Bronze plan sold through the Marketplace. For 2016, [Revenue Procedure 2016-43](#) increased the maximum penalty to \$2,676 for a single individual, and \$13,380 for a family of five or more, if they're uninsured in 2016.

Example: Married couple with 2 children, \$70,000 income

Patrick and Kristin are married and have two children under 18. They do not have minimum essential coverage for any family member for any month during 2016 and no one in the family qualifies for an exemption. For 2016, their household income is \$70,000 and their filing threshold is \$20,700.

- **To determine their payment using the income formula**, subtract \$20,700 (filing threshold) from \$70,000 (2016 household income). The result is \$49,300. Two and a half percent of \$49,300 equals \$1,232.50.
- Patrick and Kristin's **flat dollar amount** is \$2,085, or \$695 per adult and \$347.50 per child.

The family's annual national average premium for bronze level coverage for 2016 is \$10,704 (\$2,676 x 4). Because \$2,085 is greater than \$1,232.50 and is less than \$10,704, Patrick and Kristin's shared responsibility payment is \$2,085 for 2016, or \$173.75 per month for each month the family is uninsured (1/12 of \$2,085 equals \$173.75).

Patrick and Kristin will make their shared responsibility payment for the months they and their children were uninsured when they file their 2016 income tax return.

PREMIUM TAX CREDIT (PTC)

The premium tax credit, or PTC, is a refundable credit that helps eligible individuals and families with low or moderate income afford health insurance purchased through a Health Insurance Marketplace (Covered CA).

If you purchase health insurance coverage through the Marketplace and get assistance in paying premiums through advance credit payments made on your behalf, **it is extremely important to report life changes to the Marketplace throughout the year.** Certain changes to your household, income or family size may affect your premium tax credit, tax refund or cause you to owe tax.

Changes that can affect the amount of your actual premium tax credit include:

- Increases or decreases in your household income including lump sum payments like a lump sum payment of Social Security benefits
- Marriage or divorce
- Birth or adoption of a child
- Gaining or losing eligibility for other health care coverage including eligible employer- sponsored coverage or government sponsored coverage such as Medicare
- Gaining, losing or other changes to employment

At the end of the year you will receive a **Form 1095-A** from Covered CA which will provide us with the information needed to claim the credit or reconcile advance credit payments on your tax return using Form 8962, Premium Tax Credit.

S-CORP SHAREHOLDER HEALTH INSURANCE PREMIUMS

Does your S-Corp pay for or reimburse you for your health insurance premiums? If so you need to make sure the total amount is being included on your W-2 at the end of the year.

Health and accident insurance premiums paid on behalf of a **greater than 2-percent S corporation shareholder-employee** are deductible by the S corporation and **reportable as wages on the shareholder-employee's Form W-2**, subject to income tax withholding.

THE ADDED BENEFITS OF CONTRIBUTING TO HEALTH SAVINGS ACCOUNTS (HSA)

Are you covered by a high-deductible health plan? If so then you're likely eligible for an HSA. If you haven't yet funded one, you are missing out on an **important financial planning tool**.

An HSA is a commonly overlooked tax planning tool that offers three separate tax benefits to account owners: 1) **tax deductible or pre-tax contributions**, 2) **tax-free growth**, 3) **tax-free distributions for qualified medical expenses**.

There are tax planning strategies that can be implemented to allow account owners to pay for current health care expenses (if needed) and also save for future expenses, including expenses after retirement. It's much like a ROTH IRA for medical expenses that also allows you the benefit of a current tax deduction like a traditional IRA does. Sound too good to be true? Let us know if you'd like more information.

ARE MY MEDICAL EXPENSES DEDUCTIBLE?

This is one of the most commonly asked questions when tax time comes around and the answer depends on a couple of different things. If you itemize your deductions you may be able to deduct expenses you paid for medical and dental care for yourself, your spouse, and your dependents. **You may deduct only the amount of your total medical expenses that exceed 10% of your adjusted gross income or 7.5% if you or your spouse is 65 or older.**

Medical care expenses include payments for the diagnosis, cure, mitigation, treatment, or prevention of disease, or payments for treatments affecting any structure or function of the body. This can also include the cost of certain home modifications deemed medically necessary. You may not deduct funeral or burial expenses, over-the-counter medicines (i.e., medicines or drugs that are not required to be prescribed), toothpaste, toiletries, cosmetics, a trip or program for the general improvement of your health (health club dues), or most cosmetic surgery.

SELF-EMPLOYED HEALTH INSURANCE DEDUCTION

If you are **self-employed and have a net profit for the year**, you may be eligible for the self-employed health insurance deduction.

This is an adjustment to income for premiums (including Medicare premiums) you paid on a health insurance policy covering medical care for yourself, your spouse, and dependents.

If you do not claim 100% of your paid premiums, you can include the remainder with your other medical expenses as an itemized deduction on Sch. A.

** The self-employed health insurance premium deduction can't be taken if you were eligible for a group insurance plan from your or your spouse's employer.*

FLEX SPENDING ACCOUNTS (FSA's)

A health flexible spending arrangement (FSA) allows employees to be reimbursed for medical expenses. FSAs are usually funded through voluntary salary reduction agreements with your employer and are most beneficial when medical expenses are predictable. You make an annual election for your total contribution and once done no changes can be made. Generally, contributed amounts that are not spent by the end of the plan year are forfeited. A \$500 rollover is allowed with some plans.

RETIRED PUBLIC SAFETY OFFICER—

INSURANCE PREMIUM EXCLUSION



If you are an eligible retired public safety officer (law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew), you can elect to exclude from income distributions made from your eligible retirement plan that are used to pay the premiums for accident or health insurance or long-term care insurance. The premiums can be for coverage for you, your spouse, or dependents. The distribution must be made directly from the plan to the insurance provider. You can exclude from income the smaller of the amount of the insurance premiums or \$3,000. This election can only be made for amounts that would otherwise be included in your income. The amount excluded from your income cannot be used to claim a medical expense deduction.



CHECKLIST OF ITEMS TO BRING TO YOUR TAX APPOINTMENT

- * All income documents: W-2's, 1099-R's, 1099: Misc's, Int's, Div's
- * W-2G's for gambling winnings AND win/loss statement(s)
- * 1098-T for tuition paid to colleges AND totals for all additional course related expenses (books, etc.)
- * FINAL Settlement Statements (Closing Disclosure) for home purchases, sales, and refinances
- * K-1's for interests owned in all partnerships, s-corps, and trusts
- * Childcare provider(s): name, address, phone number, AND TAX ID#
- * Social security numbers for new dependents
- * Estimated tax payments: amounts and dates paid
- * State installment agreement payments: Total paid for the year
- * Year end 1099-B's for all brokerage accounts
- * Bank routing number and account number for direct deposit / direct debit
- * Current Identity Protection Personal Identification Number (IP PIN) from CP01A notice for those who have been identified as victims of identity theft
- * Copies of last years tax returns (for new spouses and/or clients)
- * DMV VLF fees for all vehicles. *If you can't find your renewal, you can look up the deductible portion on the DMV's website (www.dmv.ca.gov) using the License Number and the last five of the VIN number
- * Real estate taxes on all properties owned

**Personalized tax organizers are available upon request
to assist you in compiling your tax information.**

ADDITIONAL TOPICS TO CHECK OUT ON OUR WEBSITE:

www.olbts.com

1. [Federal rule changes 12/01/16 affecting salaried—exempt employees](#)
2. [IRS to subject ALL income of LLC Members to self-employment \(S/E\) tax](#)
3. [IRS Waging New Audit Campaign Against Businesses](#)
4. [Workforce shifting from W-2 workers to independent workers](#)
5. [Are you setting yourself up for an underpayment penalty? Check your withholding](#)
6. [Foreign Worker Visas Increased](#)
7. [Home energy system loan programs \(HERO\): Payments are added to your tax bill but are not deductible as real estate taxes](#)