A Publication of Tax News & Tips™ Year End 2017

Santos Associates
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A Family Business since 1961

ENROLLED AGENTS
CERTIFIED FINANCIAL PLANNER™
LICENSED INSURANCE AGENTS
REGISTERED TAX RETURN PREPARERS

Got Everything We Need?

Here is a list of frequently missed items. Check these against your list.

Check This List For Frequently Missed Items

✔ **Refinances**
I need to see the ***FINAL settlement*** statement. Collect all documents associated with a refinance if you are unsure.

✔ **Child Care Expenses**
I need the full name, address, telephone number and tax ID number of your care providers.

✔ **Estimated Federal Tax Payments**
Find the date and amount for payments. Look at dates near payment due dates. April 18, 2017, June 15, 2017, September 15, 2017 and January 16, 2018. A January 2017 payment would have been claimed on your 2016 return.

✔ **Sales of Property**
The most important thing is the ***FINAL settlement*** statement (no estimated statements). Gather all related documents as well.

✔ **College Tuition**
Form 1098-T lists tuitions. I need these forms as well as details on the courses, all expenses and who the "student" was.

✔ **Sales of Stock**
Form 1099-B shows sale price and lots of other confusing data. If this form does not show the original purchase price you will need to find the original "buy" confirmation or ask your broker for the data.

✔ **Business Records**
Be careful to separate purchases of major equipment from other supplies.

✔ **Employer Reimbursements**
If employer reimburses an expense, we need records to be sure we claim only the excess. An example is reimbursement of business travel miles at less than the Federal reimbursement amount (53.5 cents per mile down from 54 cents in 2016).

✔ **Partnership Information**
Schedule K-1 from partnerships and LLCs always seem to arrive late. Don't worry. We can do the rest of your return and be ready to finish when the K-1 arrives. Make special note here... we don't want to file your return only to find out we were still waiting for a Form K-1.

✔ **Social Security Benefits**
Find Form 1099-SSA. We must report the gross amount and not just your net monthly benefit. Your Medicaid Premiums listed on the Form may also get you a medical deduction.

✔ **Special Accounts**
Do you contribute to an IRA, Roth IRA or Health Savings Account? These and others can cut your taxes. Make sure that I have all of the information on contribution amounts and dates of the contribution.

✔ **Complex Transactions**
Please call if you have an unusual or difficult transaction. Foreclosures, sales or exchanges of real estate, casualties and the like can cause a lot of extra work. We may need to schedule a special meeting and I may need extra time. Have all of the details... ***help me help you!***

Tax Reform Update?

Tax Reform continues to be a work in progress. The White House released an updated framework for tax reform in September that is slightly changed from the Plan that was released earlier in 2017. The Plan still calls for 4 income tax brackets, down from the current seven but, they are now 0%, 12% (10% in the original Plan), 25% and 35%. The standard deduction would double to $12,000 for single filers and $24,000 for couples filing a joint tax return and personal exemptions would be eliminated. The business tax rate would be reduced from 35% to 20% (15% in the original Plan) and the tax to pass through entities (S Corps & LLCs) would be 25% (15% previous Plan provision). Most itemized deductions would be eliminated except charitable contributions and home mortgage interest. A big obstacle to approval by Congress will be the elimination of the deduction for state and local income taxes and property taxes (SALT). These deductions are significant to most tax filers that itemize especially those in high-tax states and homeowners everywhere. We were hoping that tax reform would be complete for 2017 but temporary tax cuts still seem much more likely.

INSIDE THIS ISSUE OF *TAX NEWS & TIPS*

Myth: A taxpayer and his or her same-sex spouse cannot file a joint return if they were married in a state that recognizes same-sex marriages but they live in a state that does not recognize their marriage.
Truth: For federal tax purposes, the IRS has a general rule recognizing a marriage of same-sex individuals that was validly entered in a domestic or foreign jurisdiction whose laws authorize the marriage of two individuals of the same sex. This rule applies even if the married couple resides in a domestic or foreign jurisdiction that does not recognize the validity of same-sex marriages.

Myth: I can get a tax credit for putting new energy efficient windows in my home in 2017.
Truth: This tax credit expired at the end of 2016. This credit may be extended, save any receipts related to qualified purchases… just in case. Any qualified purchases of windows, doors, furnaces, boilers, water heaters and more that were installed prior to January 1, 2017 are eligible for this credit on 2016 or earlier returns (subject to limitations). Equipment installed on or after January 1, 2017 is not eligible for this credit.

Myth: Disaster relief only effects taxpayers with casualty losses.
Truth: Victims of hurricanes Harvey, Irma and Maria can get relief from Congress for early distributions from retirement accounts. The 10% penalty on pre-age 59 ½ payouts is waived on IRA or retirement plan distributions of less than $100,000. The tax due on these distributions may also be spread over a three-year period. Amounts recontributed to the IRA or Plan can be treated as a rollover and the tax paid can be recovered by filing an amended return.

Myth: I live on a fixed income. My Social Security benefit check will never increase.
Truth: Social Security benefits could increase each year. The benefit increases for cost of living adjustments are based upon the Consumer Price Index. The projected increase for 2018 is 2%. This is the largest increase since 2012 but, amounts to only $25 per month for the average beneficiary.

Tax-Related Identity Theft Victims Can Get Copies of The Fraudulent Returns

The IRS will disclose the return information only to victims whose name and social security number are listed as either the primary or secondary taxpayer on the fraudulent return. Taxpayers claimed as dependents on fraudulent returns cannot get copies. Information for requesting a copy of a fraudulent return can be found at:

www.gov/individuals/Instructions-for-requesting-copy-of-fraudulent-returns

Tax Tips For You… *Now!*

✔ ***Interest On Series EE Or I Savings Bonds Can Become Tax-Free!*** When used to pay for education and following certain rules the interest on these bonds becomes tax-free. The bonds must have been purchased after 1989 by taxpayers who are at least 24 years old in the month before buying the bonds. The bonds must be redeemed to pay for college, graduate school or vocational school tuition and fees. Room and board costs are not eligible expenses. The bonds must be in the name of the taxpayer, not in the child's name. Exclusion is subject to income levels.

✔ ***Medical Deductions Reduced For Taxpayers 65 And Older In 2017.*** For most Americans prior to 2017, your medical expenses would have had to surpass 10% of your adjusted gross income (AGI) before you could take a deduction. However, taxpayers 65 and older could use a previous threshold of just 7.5% of their AGI when itemizing and taking a deduction in 2016. Beginning in 2017, everyone is on the same playing field. If you're 65 and older, your medical expenses will have to top 10% of your AGI before you can claim itemized medical expenses.

✔ ***Claiming A Parent As A Dependent?*** As is the case with anything tax-related, you'll have to meet the requirements; once those requirements are satisfied, you'll be able to receive an additional tax break for your efforts that was designed to help offset the costs associated with caring for a parent.

• ***Support*** – you must provide 51% or more of their support costs. These costs include food, housing or lodging expenses, clothing, and medical services and/or equipment costs. Special rules apply if multiple family members provide the support.

Rules Apply If Multiple Family Members Provide Parental Support

• ***Relationship & Residency*** – the person you're caring for can be your parent, an in-law, or even a grandparent. However, they must be related to you biologically, by adoption, or through marriage (which would technically be a biological relationship through your spouse).

And guess what? The IRS has residency requirements as well. To meet the resident requirement, the person you are caring for must meet one of the following:
• Be a legal US Citizen
• Be a US National
• Be a US Resident Alien
• Be a Resident of Canada or Mexico

Finally, you are also allowed to include your parent's medical expenses when calculating your medical deductions, and you may also be able to claim the Dependent Care Credit if your parent needs assistance while you're at work or away. The rules are tricky…***call me with questions.***

✔ ***Year-End Capital Gains Distributions.*** When it comes to mutual funds, investors need to be careful when purchasing funds at the end of the year. You could be incurring a built-in income or gain distribution. This can occur because of a fund's capital gains distribution. Mutual funds are deemed pass-through entities by law, and must pay shareholders 98% of the dividends and capital gains they have accumulated during the year. Make sure you check the fund company's estimates of dividends, short-term gains, and long-term gains before you buy them at year-end in a taxable account.

January 2018 Will Be Here Before You Know It!

Watch Your Mail For These Words. Let's Be Prepared!

Help me help you. Preparing your tax information is easy if you start early so that you have everything ready at the time we start to prepare your return. Most tax records will show up in the mail in January. Keep all of these together in a special place. Collecting all of your tax related documents is important so that we report a complete and accurate return.

The IRS also gets copies of many of these documents… *we don't want to miss any!*

Let's Review What You Should Be Looking For...

W-2s. Read them carefully. Contact your employer if there is a problem or if you don't receive them by the end of January.

1099s. You get 1099-INT or 1099-DIV for any accounts that pay interest or dividends. Even tax-exempt interest will be reported. **IMPORTANT:** "Corrected" forms are always a possibility. Be alert for any announcements that warn you of these situations.

1095-A, 1095-B & 1095-C. You will receive these forms if you purchased Health Care through the Health Insurance Marketplace and had part of your premium offset by the Premium Tax Credit or from your employer on company sponsored insurance plans.

Other 1099s. Real estate sales are reported on 1099-S. Stock sales on 1099-B. Pension, 401K and IRA distributions are reflected on 1099-R. Pay special attention to forms 1099-A and 1099-C. These report foreclosures and debt consolidations... they may or may not result in taxable income. We need to see them to correctly prepare your return.

Form 1098. Reports mortgage interest paid to a bank, savings & loan or credit union. These forms may also report real estate taxes (if payments are escrowed by the lender). 1098-T shows college tuitions. These forms are mailed to the student. Make sure kiddos watch for these forms – you'll need them.

Other Income. Look for reports of state tax refunds, unemployment income, prizes, gambling winnings or rents that you collect. Read each one carefully and keep them with all your other tax documents. We don't want to miss anything!

Your Records. Check all of your records for income or deductions. Review everything that occurred during the past year. Check registers or calendars will help jog your memory. Look for medical related receipts as well as receipts for any taxes paid. If you recall paying a deductible expense but don't have a receipt, jot it down and we will discuss before I prepare your return. Charitable contributions are different – you must have receipts or your deduction could be challenged and denied! You may be able to get a receipt after the fact from a charity if you are missing one. Just contact the charity to see if you can get the document needed.

Start now. Make a list of any items that you are missing. Also write down questions you might have for me.

You will be prepared if you take a few minutes each week to gather and review your documents and records. Short reviews help you remember items that you are missing or might have forgotten.

Your refund is at stake here – let's make sure that you protect it by claiming all legitimate deductions!

Need To Send 1099s?

You may need to send Form 1099 to someone else. Here are a few cases:

• Businesses. You must report payments for services.

• "Nominee" Amounts. If you are named as receiving income, but part or all of the income really belongs to someone else, you are a nominee. You must send Form 1099 to the other party by January 31. IRS wants their copy from you also by January 31. You pay a penalty for not sending them! Call me to discuss these situations... we don't want to miss these filing deadlines.

• Businesses. If you paid $600 or more to anyone during 2017 you may need to issue a form. Look at "business" expenses only. Some bills show both labor and materials. If any of the payment is for service, report the total amount on Form 1099-MISC. Paying for merchandise alone doesn't count. Look for painters, consultants, builders and the like. If you are unsure…call me.

• Getting the Forms. The IRS can send you the forms. Start early. Let me know if you need my help. Call the IRS at 1-800-829-3676 for forms. You can see the forms on the IRS website but you will need the official paper forms for filing. You will need to use the proper Form 1099 and Form 1096 as a cover sheet.

Tax Breaks Expiring After 2016?

The PATH Act of 2015 went a long way toward ending the expired/extended/expired-again course that many tax provisions have been on for several years. Many of those provisions were permanently extended. However, there are a handful of tax breaks that were only extended through 2016. They will expire again unless Congress enacts legislation extending them beyond 2016. Below are three major tax breaks that will expire:

1. Tuition & Fees Deduction – An adjustment to income that can be as much as $4,000, or $2,000 for higher income taxpayers (subject to limitations).

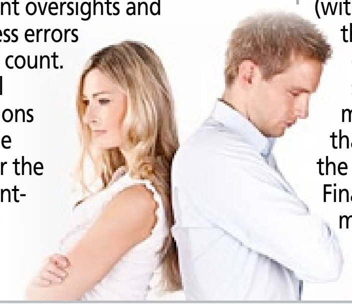
2. Cancellation of Mortgage Debt – Individuals could exclude up to $2 million of cancellation of debt income from qualified principal residence indebtedness. Binding agreements entered prior to January 1, 2017 still qualify.

3. Mortgage Insurance Premium Deduction – Premiums for qualified mortgage insurance on debt to acquire, construct or improve a first or second residence can potentially be treated as deductible qualified residence interest.

May 2018 bring peace, health and prosperity to both you and your family.

Innocent Spouse Protection

Ultimately, this tax provision is designed to protect people from liability for taxes incurred because of evasive or dishonest financial behavior by their spouses, or from divorces where one person fails to pay tax on the income he or she earned and intends to leave the other spouse with the bill. An understatement of tax is reporting less tax owed than should have been reported. Typical erroneous items include omissions of income, understatements of income, overstatements of deductions and over claims of exemptions and credits. The amount must be real and determinable in amount. The amount must be attributable to some erroneous item or items on the return by the other spouse. Innocent oversights and harmless errors do not count. Several conditions must be met for the innocent-spouse rule to apply.



The innocent spouse must prove (with appropriate documentation) that the error or fraud was committed by the other spouse. The innocent spouse must also be able to establish that he or she didn't know about the income or fraudulent activity. Finally, the application for relief must be made within two years of when the IRS begins its collection process.

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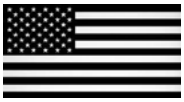

God Bless America

Your Tax Calendar

Dec 30	Last chance for deductions. A check mailed today counts for 2017(the 31st is on a Sunday). Credit card purchases or payments may be accepted through Dec 31 based upon the posting date.
Jan 16	4th Quarter estimated tax payments due.
Feb 1	W-2s and 1099s due to recipients.
Mar 15	Original filing deadline for partnerships and S Corporations.
Apr 17	2017 individual Tax Returns due. C Corporation returns due.

Anytime you have any questions, don't hesitate to call me. I am here for you!

Injured Spouse Relief

You may be an injured spouse if you file a joint tax return and all or part of your portion of a refund was, or is expected to be, applied to your spouse's legally enforceable past due financial obligations. These financial obligations could be child support, spousal support, past due taxes or student loans. To be considered an injured spouse, you must have paid federal income tax or claimed a refundable tax credit, such as the Earned Income Credit or Additional Child Tax Credit on the joint return, and not be legally obligated to pay the past-due debt. Special rules apply in community property states. If you filed a joint return and you're not responsible for the debt, but you are entitled to a portion of the refund, we may request your portion of the refund by filing Form 8379, Injured Spouse Allocation. We may file form 8379 along with your original tax return or we may file it by itself after you receive an IRS notice about the offset.