



# Tax Planning Letter



## Year-End 2016

Dear Clients and Friends,

With a **new President** coming to the White House early next year we can expect a **number of tax changes to occur**. With that in mind, this is the time to get your income “tax house” in order for 2016. It is still unclear and too early to speculate what the changes will be. What is clear is that delaying your tax planning will equal missed opportunities. Though making sound decisions in the face of uncertainty is difficult, informed action can put you in a position to take advantage of current developments as they unfold.

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Fox Peterson announced in August 2016 that Tyson Haws, Dason Hatch, and David Hakes have been brought on as **new partners**. All three are CPAs with years of experience. We feel the new partners will allow Fox Peterson to continue fostering an entrepreneurial spirit with the highest professional and ethical standards. Founding partners Clark Fox and Craig Peterson are excited about continuing to serve clients and work with these new partners to help move the practice forward.

This Letter is intended to remind you that **tax planning** is a process, and successful planning favors the prepared. It's important to weigh the risks and rewards of tax-saving moves you can take now while maintaining the ability to respond rapidly and effectively.

**There is still time to setup an appointment for year-end tax planning by December 31.** Call with your questions and schedule a time to discuss which options are best for you.



“You can pay me next year. My tax guy advised me to defer my income.”

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NOTE: This newsletter is issued annually to provide you with information about preparing for and minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.



## In anticipation of filing your 2016 tax return...

### Affordable Care Act

All Americans will be affected in some manner by the Affordable Care Act from 2010 (Some people call it Obamacare). One of the requirements is that all taxpayers must be covered by health insurance or pay a penalty. ***If you received a Form 1095 from any issuer or agency we MUST have all copies to prepare your tax return.***

### Mortgage Interest

We must obtain Form 1098 from you when you pay mortgage interest. Additionally, we must obtain refinancing closing statements, and if you drew money out on a home mortgage or refinancing we must have general information on the use of the money.

### Other Income

If you have any income from AirBNB, Turo, Amazon, Uber, Etsy, EBay or similar consumer to consumer programs, please let us know because many income tax rules are affected and few of these sites provide you with adequate tax information.

### Charity

ALL deductions of any amount must have a receipt. Any individual contribution over \$250 must also have an acknowledgement letter from the charity, and the letter must be dated by the date we file your return. The letter should show the amount of any individual contribution over \$250, and should also state that no goods or services were received in return for the contribution.



"Our books are balanced. 50% of our numbers are real and 50% are made up."

### Foreign Accounts

If you have read any news in the last year you know that the IRS is looking closely for offshore accounts. If you have an account, retirement, account, or business interest with a value over \$10,000 in a foreign country, or a foreign business ownership (not through a mutual fund) please let us know as some special rules will apply to you. There are substantial penalties for failure to disclose these items.

### Tax Planning

**There is still time to setup an appointment for year-end tax planning by December 31.**

We recommend a meeting if you had any major changes during 2016 or are expecting major financial changes in 2017 or 2018 such as retirement, inheritances, etc.



## Refresher on the changes brought about by the Affordable Care Act:

In June 2015, a U.S. Supreme Court ruling allowed the Affordable Care Act to continue in its present form. That means you'll need to consider the law's provisions in your year-end planning. Here's a review.

- **Premium credit for individuals.** This federal tax credit provides a subsidy to help pay health insurance premiums. The amount you can claim depends on income and family size. Planning tip: Adding a dependent or getting a raise can affect the amount of your credit. Run the numbers before year-end to avoid an April 15 surprise.
- **Individual penalty.** The penalty applies when you or your dependents do not have health insurance during the year and don't qualify for an exemption. The penalty for 2016 is the greater of \$695 per adult (\$347.50 per child) or 2.5 percent of income. Planning tip: If you were uninsured for no more than two months during 2016, the penalty doesn't apply.
- **Net investment income surtax.** The 3.8% surtax applies to net investment income when your adjusted gross income (AGI) exceeds \$250,000 when you're married filing jointly (\$200,000 when you're single or filing as head of household). Planning tip: Net investment income includes dividends, interest, and capital gains (minus related expenses).
- **Medicare surtax on wages.** The 0.9% surtax applies to wages, compensation, and self-employment income when your AGI exceeds \$250,000 and you're married filing jointly (\$200,000 when you're single or filing as head of household). Planning tip: Your employer is not required to withhold for the surtax unless your wages exceed \$200,000. If you're married and your joint income exceeds the threshold, revise 2016 estimates or withholding to avoid penalties.
- **Employer penalties.** These penalties apply when you don't provide health insurance and/or affordable health insurance to employees. For 2016, the penalties can apply when 50 or more full-time employees work in your business. When you employ fewer than 50 workers, you're not subject to the penalties. Planning tip: Make sure workers are classified correctly as employees or independent contractors.

If you have questions about the Affordable Care Act and 2016 tax planning, please call.



"After federal, state, and local taxes,  
you get one-third of a wish."



"I can claim a 70-inch plasma TV as a business expense because my accountant said it's important to look at the big picture."



## Five more ways to cut your taxes

If you're looking for ways to cut your 2016 tax bill, you might check out the following suggestions to see if any fit your individual situation. But hurry; there's not a lot of time left in 2016 to make a difference in the taxes you'll pay this year.

**1. Consider a health savings account (HSA).** Investing in an HSA gives you a current-year tax deduction while providing a savings account to use to pay out-of-pocket medical expenses currently or in the future. An HSA is not a "use it or lose it" plan. Any funds in the plan at year-end can be used in future years. And be aware that you can fully fund your HSA up to April 15 of the following year.



"Can I write off last year's taxes as a bad investment?"

**2. Take advantage of expiring energy-efficiency rules.** A limited credit is available if you install them by Dec. 31. Last year's tax law extended through 2016 the credit for energy saving items added to one's residence, such as windows, insulation, roofs and doors. The credit is 10% with a \$500 maximum, and credits taken in prior years count against the \$500. The 30% credit for residential solar energy systems is still available through 2021.

**3. Establish and contribute to retirement accounts.** Retirement planning is important for your

future. IRA, 401k, and other types of retirement plans are a future source of income, and contributing to retirement plans can often give you tax benefits now. Discussing these options *before* year-end allows us to take advantage of the retirement account type that is optimal for your situation.

**4. State charitable donations.** Most states have specific tax credits that residents can qualify for. Arizona has a number of organizations that taxpayers can donate to for both a federal itemized deduction AND a state credit. These credits include donations to charitable organizations, foster care organizations, extracurricular activities at public schools, and tuition paid to private schools. Some of these donations can be made through April 15.

**5. If you're required to take distributions** from your retirement plan, do so by December 31 or you face a 50% penalty. If you just turned 70½ this year, you could wait until April 1, 2017, to take a first distribution.

## Additional tips for small businesses

- **Business Equipment.** Take advantage of end-of-year sales on business equipment. For 2016, a maximum Section 179 deduction of \$500,000 and 50% bonus depreciation are generally available for qualified property placed in service. Special limits apply to vehicles.
- **Company outings.** Generally, deductions for business entertainment and meals are limited to 50% of the cost. However, if you throw a company-wide holiday party before year-end, you might be able to deduct 100% of the cost when you meet certain requirements, such as inviting your entire staff.

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# Tips for small business owners

- **Changes for filing 1099-MISC forms.** Congress has gotten serious about failing to issue 1099's. Penalties for not issuing are going from \$50 per event to up to as much as \$1,000 per each omitted or incorrect 1099-Misc. A 1099-Misc is required whenever you pay a non-corporate entity \$600 or more in one year in business transactions. For tax year 2016, the 1099-Misc must be provided to the taxpayer and the IRS by January 31, 2017 or those penalties will apply. In mid-November Fox Peterson issued a letter to clients who would potentially need to submit 1099-MISC forms. Please contact us if you would like a copy of the letter or have additional questions about these rules.
- **W-2 issue & filing deadlines.** There are significant changes to W-2 filing deadlines for calendar year 2016. This year all W-2's must be filed with the SSA by January 31, 2017. The deadline to provide W-2 forms to employees is still January 31.
- **Accelerated Depreciation.** In December 2015, congress passed the PATH Act. This law permanently extended Section 179 depreciation and temporarily extended "Bonus" depreciation (will be phased out completely by 2019).
- **Tax Return Due Dates.** In July 2015 congress passed a bill that modifies the due dates for several common tax returns. For tax year 2016, the due date for partnership and S corporation tax returns is March 15, 2017, and the due date for C corporations and individuals is April 15, 2017. This change makes all pass-through entities due March 15, and tax-paying entities April 15.
- **Arizona Sales tax changes.** Starting January 2017, the Arizona Department of Revenue will be the single point of administration and collection of state, county, and municipal transaction privilege tax (TPT). This means if you currently report to a self-collecting city (non-program city), your last return to that city will be your December 2016 return (filed in January 2017). Starting in 2017 you will use form TPT-EZ (or TPT-2 if you have Nexus in more than one city).
- **Arizona Minimum Wage change.** Proposition 206 (passed November 2016) increased the minimum wage to \$10 in 2017, \$10.50 in 2018, \$11.00 in 2019, and \$12 in 2020. The initiative also guaranteed 40 hours of annual paid sick time to employees of businesses with 15 or more employees and 24 hours to those of businesses with less than 15 employees. The measure entitled employees to accrue one hour of paid sick time for every 30 hours worked.



"The consultant said I was wearing too many hats."

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## Arizona Tax Credits

For 2016 the credit limits have increased and are now available through 4/15/2017. As a result, if you have an Arizona tax liability large enough to absorb the tax credits, married couples and single/heads of household taxpayers are eligible for up to \$4,373.00 and \$2,187.00 in 2016 Arizona tax credits respectively. Should you have questions on this or how much you should give to offset your anticipated 2016 Arizona tax, please contact your tax professional at Fox Peterson (480) 898-7640.

### 1) Qualifying Charitable Organizations

An individual income tax credit is available for contributions to Qualifying Charitable Organizations that provide assistance to residents of Arizona. The maximum credit you can receive depending on your filing status is **\$400/\$800**.

Examples of Qualifying Charitable Organizations:

- East Valley Adult Resources (Meals on Wheels)
- United Food Bank
- Habitat for Humanity
- Boys and Girls Clubs
- List of Other Organizations:
- A New Leaf
- Boy Scouts of America
- United Way

<https://www.azdor.gov/TaxCredits/QualifyingCharitableOrganizations.aspx>

### 2) Qualifying Foster Care Charitable Organizations

An individual income tax credit is available for contributions to Qualifying Charitable Organizations that provide foster care to children in Arizona. The maximum credit you can receive depending on your filing status is **\$500/\$1,000**.

Examples of Qualifying Foster Care Charitable Organizations:

- Arizona Helping Hands
- Christian Family Care
- List of Other Organizations:
- Helen's Hope Chest
- New Horizon Youth Homes, Inc.

<https://www.azdor.gov/TaxCredits/QualifyingCharitableOrganizations.aspx>

### 3) ECA – Extracurricular Activities (Schools)

An individual may claim a credit for making contributions or paying fees to a public school for support of extracurricular activities or character education programs. The maximum credit you can receive depending on your filing status is **\$200/\$400**.

Examples of Extracurricular Activities Schools:

- Public Schools
- Arizona Schools for Deaf and the Blind
- Charter Schools
- For more information and guidelines on the ECA tax credit visit:

<https://www.azdor.gov/Portals/0/Brochure/707.pdf>

### 4) Contributions to Private School Tuition Organizations

An individual may claim a credit for making a donation to a School Tuition Organization for scholarships to private schools. The maximum credit you can receive depending on your filing status is **\$1,087/\$2,173**.

For a List of Qualifying School Tuition Organizations visit:

[https://www.azdor.gov/Portals/0/RefundCredits/sto\\_i\\_list.pdf](https://www.azdor.gov/Portals/0/RefundCredits/sto_i_list.pdf)