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What Does the Future Hold for Taxes?

Article Highlights:

- Trump's Proposed Tax Policies
- Consolidated Tax Rates
- Increased Standard Deductions
- Comparison Worksheet
- Other Factors

One topic that is frequently being discussed is what the future holds for individual taxation under incoming President Trump. Numerous blog entries have been posted on the issue; many proclaim that the wealthy will be the beneficiaries of Trump's tax policies, and some declare that lower-income taxpayers will see tax increases.

Those predictions are based upon his proposal to consolidate the individual income tax rates from seven to three: 12, 25 and 33 percent. These are the same three rates that were included in the "Better Way" tax-reform blueprint that Republicans in the House of Representatives released in June 2016.

Current Marginal Tax Rates Effective For 2017

Current Rates (2017)	Single	Head of Household	Married Filing Jointly
10%	$0 to $9,325	$0 to $13,350	$0 to $18,650
15%	$9,326 to $37,950	$13,351 to $50,800	$18,651 to $75,900
25%	$37,951 to $91,900	$50,801 to $131,200	$75,901 to $153,100
28%	$91,901 to $191,650	$131,201 to $212,500	$153,101 to $233,350
33%	$191,651 to $416,700	$212,501 to $416,700	$233,351 to $416,700
35%	$416,701 to $418,400	$416,701 to $444,550	$416,701 to $470,700
39.6%	$418,401 and greater	$444,551 and greater	$470,701 and greater

Trump's Proposed Marginal Tax Rates

Trump's Proposed Rates	Single	Head of Household	Married Filing Jointly
12%	$0 to $37,500	Use Single Rates	$0 to $75,000
25%	$37,501 to $112,500	Use Single Rates	$75,001 to $225,000
33%	$112,501 and greater	Use Single Rates	$225,001 and greater

Under Trump's plan, the two highest current rates, 39.6% and 35%, would be eliminated, which generally favors higher-income taxpayers. However, the tax brackets alone do not tell the whole story.

Trump is also proposing more than doubling the standard deductions, which would generally benefit lower-income taxpayers. Because the marginal tax rates apply only to taxable income (which is currently defined as adjusted gross income minus personal exemptions and deductions—either standard or itemized), the increase in the standard deduction will tend to neutralize the higher marginal rates for lower-income taxpayers.

Proposed Standard Deduction Increase

Filing Status	Current (2017)	Trump's Proposal
Single	$6,350	$15,000
Married Filing Jointly	$12,700	$30,000

According to an estimate by the nonpartisan Tax Policy Center, of the 45 million filers who would itemize their deductions in 2017, 27 million (60 percent) would opt for the standard deduction under the proposed rules.

To see how the proposal's combination of new tax rates, higher standard deductions, and cap on itemized deductions (discussed below) could affect your taxes, pull out your 1040 tax return from either 2015 or 2016 and complete the worksheet below. Then compare **line 6** (your tax computed using Trump's proposed three-tier tax rates and standard deductions) to **line 7** (your tax as computed on a prior 1040) to get a rough idea of how these tax proposals could impact you.

Line	Description		
1	**Adjusted Gross Income** – Enter the amount from line 38 on a prior 1040.		
2a	Deductions – Enter the amount from line 40 on a prior 1040.		
2b	Trump's Standard Deduction – Enter $15,000 if filing as single or $30,000 if married filing jointly.		
2c	**Deductions** – Enter the larger of line 2a or 2b.		
3	**Exemptions** – Enter the amount from line 42 on a prior 1040.		
4	Enter the sum of lines 2c and 3.		
5	**Taxable Income** – Subtract line 4 from line 1 and enter the difference.		
6	**Trump Tax –** Using Trump's tax-rate schedule above, enter the tax on the amount given in line 5.		
7	**Prior Tax –** Enter the amount from line 44 on a prior 1040.		

Trump's Rate Schedule: Single

Over	But Not Over	The tax is	Of the amount over
$0	$37,500	----- + 12%	$0
$37,500	$112,500	$4,500 + 25%	$37,500
$112,500	----	$23,250 + 33%	$112,500

Trump's Rate Schedule: Married Filing Jointly

Over	But Not Over	The tax is	Of the amount over
$0	$75,000	----- + 12%	$0
$75,000	$225,000	$9,000 + 25%	$75,000
$225,000	----	$46,500 + 33%	$225,000

Trump also proposes capping itemized deductions at $100,000 for single filers and $200,000 for joint filers. This will generally affect wealthy taxpayers. Under current law, certain itemized deductions phase out for high-income taxpayers. It is unclear whether that provision will be replaced by the proposed cap on itemized deductions or whether both will apply. If the cap is adopted, the amount entered on line 2c of the worksheet above will be limited based on the proposed cap amounts.

Although this is not clear, Trump's proposals may include the elimination of personal exemptions. If true, this change would have the greatest effect on lower-income taxpayers because these exemptions are already phased-out for higher-income taxpayers. Those with large families could be impacted the most. If the personal exemptions are eliminated, the amount on line 3 of the worksheet above would be zero.

Not the Whole Picture - The tax-rate changes, higher standard deductions, and limitations on itemized deductions don't paint the whole picture of the proposal. It is unclear what will happen to the numerous credits available to lower-income taxpayers under the current tax system. Approximately 48% of all U.S. taxpayers pay no tax at all, and most of them actually receive money back on their returns as a result of refundable tax credits such as the earned income tax credit, the additional child tax credit, and the American Opportunity Tax Credit (a tuition credit).

The Republicans have started the process of appealingthe Affordable Care Act (also referred to as the ACA or Obamacare), and now that they have majorities in both houses of Congress and control of the White House, we are bound to see some changes in this area. The health care marketplaces have already accepted insurance coverage for 2017, so it is doubtful that there will be any changes until 2018. However, Trump has vowed to overturn the ACA's 3.8% excise tax on net investment income; eliminating this tax would greatly benefit higher-income taxpayers.

It is probably too early to have a clear picture of future tax reforms, but change is sure to come. If you have questions about how your tax situation may be impacted, please give this office a call.

Along with Tax Season Come the Scams; Don't Be a Victim

Article Highlights:

- Tax Season Brings Scams
- Key ID Elements
- How the IRS Operates
- Email Scams & Phishing
- Phone Scams
- ID Thieves

One thing we can count on when tax season begins is the scammers coming out from under their rocks with schemes to try and trick you so they can steal your ID and file returns under your Social Security number (SSN). Or, they may even email or call you pretending to be IRS or state tax agents and attempt to intimidate you into sending them money to pay fabricated tax liabilities. These crooks take advantage of individuals' natural fear of the IRS and use it to coerce their marks into making payments without first verifying the validity of the liability.

Don't be a victim of these unscrupulous predators. The only way to protect yourself is to understand their tricks and what to do (actually, what not to do). This article includes a variety of plots that have been employed in the past. But, keep in mind these lowlifes can be very clever, intimidating, and aggressive, and come up with new schemes all the time, so you need to be vigilant.

ID thieves prize three things: your name, Social Security number, and birth date. You should always be very careful about divulging your birth date and SSN. Don't use them unless absolutely necessary, and always question the requester's need to know.

You should also be aware that the IRS never initiates contact in any way other than by U.S. Mail. So, if you receive a phone call from out of the blue demanding payment, you can be assured it is a scam. Simply hang up the phone without providing any information. If you receive an email from the IRS, do not click on embedded links or attachments. That could cause malware to be installed on your computer, allowing scammers to access your computer. The first thing you should do is call this office.

Additionally, it is important for taxpayers to know that the IRS:

1. Never asks for credit card, debit card, or prepaid card information over the telephone.
2. Never insists that taxpayers use a specific payment method to pay tax obligations.
3. Never requests immediate payment over the telephone.
4. Will not take enforcement action immediately following a phone conversation. Taxpayers usually receive prior written notification of IRS enforcement actions involving IRS tax liens or levies.

Email Scams & Phishing – Every tax season, the scammers become very active. They create bogus emails disguised as authentic emails from the IRS, your bank, or your credit card company, none of which ever request information that way. They are trying to trick you into divulging personal and financial information that they can use to invade your bank accounts, make charges against your credit card, or pretend to be you to file phony tax returns or apply for loans or credit cards. Always be skeptical! If the email is related to taxes, call this office before doing anything. If it is supposedly from your credit card company, your bank, or another financial institution, call the organization to verify the authenticity of the email.

One scam last year was an email sent to taxpayers requesting that they click on a link in the email to verify their identity before their tax refund could be released. The link took them to the ID thief's website, made to look like the IRS's, where victims entered their names, SSNs, and birthdates. Others used the same scheme, pretending to be an individual's bank or credit card company.

Phone Scams – Very aggressive scammers will call, claiming to be an IRS agent, and tell the person answering the call that they owe money that must be paid immediately or their home will be seized, their wages will be attached, or even that they will be arrested. After threatening the victim with jail time or driver's license revocation, the scammer hangs up. Soon, someone else calls back pretending to be from the local police or DMV, and the (rigged) caller ID supports their claim.

These are frequently thieves from outside the U.S., and once the money is transferred, there is no chance of getting it back.

In 2016, the police in Mumbai, India, busted a phone center that was calling U.S. taxpayers with just such a scheme and bilking U.S. taxpayers to the tune of $150,000 a day. They demanded payment by credit card, debit card, or gift card.

ID Thieves – These rip-off artists file phony tax returns using stolen IDs and counterfeit W-2s and have the refunds directly deposited into their bank accounts, which they then clean out before the victim or the IRS discovers what happened. If the IRS rejects your return because a SSN on your return was previously used to file, that is a good indication your ID has been stolen, and you should contact this office for instructions on notifying the IRS. Once your ID has been compromised, the IRS will issue a special six-digit Identity Protection number that can be used in conjunction with your SSN to file your return.

If your ID has been compromised, or you suspect it might have been, contact this office immediately so we can assist you in notifying the IRS, so that they block returns filed with your SSN but without the special six-digit filing number.

We also urge you to educate others in your family who could be scammed.

If you have questions, please give this office a call.

Important Tax Changes for Small Businesses

Article Highlights:

- Section 179 Expensing
- Bonus Depreciation
- Vehicle Depreciation
- New Filing Due Dates
- Work Opportunity Credit
- Research Credit

Tax legislation passed late in December 2015 (the Protecting Americans from Tax Hikes Act) extended a number of favorable business provisions and made some others permanent. The provisions can have a significant impact on a business's taxes for 2016. Here is a rundown of those changes that need to be considered when preparing your 2016 and 2017 returns.

Section 179 Expensing – The Internal Revenue Code, Sec. 179, allows businesses to expense, rather than depreciate, personal tangible property other than buildings or their structural components used in a trade or business in the year the property is placed into business service. The annual limit is inflation-adjusted, and for 2017, that limit is $510,000, up from $500,000 in 2016. The limit is reduced by one dollar for each dollar when the total cost of the qualifying property placed in service in any given year exceeds the investment limit, which is $2,030,000 for 2017, a $20,000 increase from the 2016 amount.

In addition to personal tangible property, the following are included in the definition of qualifying property for the purposes of Sec. 179 expensing:

- Off-the-Shelf Computer Software
- Qualified Real Property – The term "qualified real property" means property acquired by purchase for use in the active conduct of a trade or business, which is normally depreciated and is generally not property used for lodging except for hotels or motels. Qualified retail property includes:
    - qualified leasehold improvement property,
    - qualified restaurant property, and
    - qualified retail improvement property.

Bonus Depreciation – Bonus depreciation is extended through 2019 and allows first-year depreciation of 50% of the cost of qualifying business assets placed in service through 2017. After 2017, the bonus depreciation will be phased out, with the bonus rate 40% in 2018 and 30% in 2019. After 2019, the bonus depreciation will no longer apply. Qualifying business assets generally include personal tangible property other than real property with a depreciable life of 20 years or fewer, although there are some special exceptions that include qualified leasehold property. Generally, qualified leasehold improvements include interior improvements to non-residential property made after the building was originally placed in service, but expenditures attributable to the enlargement of the building, any elevator or escalator, and the internal structural framework of the building do not qualify.

In addition, the bonus depreciation will apply to certain trees, vines and plants bearing fruits and nuts that are planted or grafted before January 1, 2020.

Vehicle Depreciation – The first-year depreciation for cars and light trucks used in business is limited by the so-called luxury-auto rules that apply to highway vehicles with an unloaded gross weight of 6,000 pounds or less. The first-year depreciation amounts for cars and small trucks change slightly from time to time; they are currently set at $3,160 for cars and $3,560 for light trucks. However, a taxpayer can elect to apply the bonus depreciation amounts to these amounts. The bonus-depreciation addition to the luxury-auto limits is $8,000 through 2017, after which it will be phased out by dropping it to $6,400 in 2018 and $4,800 in 2019. After 2019, the bonus depreciation will no longer apply.

New Filing Due Dates - There are some big changes with regard to filing due dates for a variety of returns. Many of these changes have been made to combat tax-filing fraud. The new due dates are effective **for tax years beginning after December 31, 2015**. That means the returns coming due in 2017.

Partnerships

- **Calendar Year:** The due date for 1065 returns for the 2016 calendar year will be **March 15, 2017** (the previous due date was April 15).
- **Fiscal Year:** Due the 15th day of the 3rd month after the close of the year.
- **Extension:** 6 months (September 15 for calendar-year partnerships).

S Corporations

- **Calendar Year:** 2016 calendar year 1120-S returns will be due **March 15, 2017** (unchanged).
- **Fiscal Year:** Due the 15th day of the 3rd month after the close of the year.
- **Extension:** 6 months (September 15 for calendar-year S Corps).

C Corporations

- **Calendar Year:** The due date for Form 1120 returns for the 2016 calendar year will be **April 18, 2017** (the previous due date was March 15). Normally, calendar-year returns will be due on April 15, but because of the Emancipation Day holiday that is observed in Washington, D.C., the 2017 due date is the 18th.
- **Fiscal Year:** Due the 15th day of the 4th month after the close of the year, a month later than in the past (exception: if fiscal year-end is June 30, the change in due date does not apply until returns for tax years beginning after December 31, 2025).
- **Extension:** 6 months. (Exceptions: [1] 5 months for any calendar-year C corporation beginning before January 1, 2026, and [2] 7 months for June 30 year-end C corps through 2025.) Thus, the extended due date for a 2016 Form 1120 for a calendar-year C Corp will be September 15, 2017.

W-2s, W-3s and 1099-MISC reporting non-employee compensation –

- **Due Date:** For 2016 W-2s, W-3s, and Forms 1099-MISC reporting non-employee compensation, the due date for filing the government's copy is January 31, 2017 (the previous due date was February 28 or March 31 if filed electronically). The due date for providing a copy to the employee or independent contractor remains January 31.
- **Extension** – The 30-day automatic extension to file W-2s is no longer automatic. The IRS anticipates that it will grant the non-automatic extension of time to file only in limited cases in which the filer or transmitter's explanation demonstrates that an extension of time to file is needed as a result of extraordinary circumstances

Work Opportunity Tax Credit (WOTC) – Employers may elect to claim a WOTC for a percentage of first-year wages, generally up to $6,000 of wages per employee, for hiring workers from a targeted group. First-year wages are wages paid during the tax year for work performed during the one-year period beginning on the date the target-group member begins work for the employer.

This credit originally sunset in 2014, but the PATH Act **retroactively** extended the credit for five years through 2019.

- Generally, the credit is 40% of first-year wages (not exceeding $6,000), for a maximum credit of $2,400 (0.4 x $6,000).
- The credit is reduced to 25% for employees who have completed at least 120 hours but fewer than 400 hours of service for the employer. No credit is allowed for an employee who has worked fewer than 120 hours.
- The legislation also added qualified long-term unemployment recipients to the list of targeted groups, effective for employees beginning work after December 31, 2015.

Research Credit - After 21 consecutive years of extending the research credit year by year, the PATH Act made it permanent and made the following modifications to the research credit:

- For years after December 31, 2015, small businesses (average of $50 million or less in gross receipts in the prior three years) can claim the credit against the alternative minimum tax.
- For years after December 31, 2015, small businesses (less than $5 million in gross receipts for the year the credit is being claimed and no gross receipts in the prior five years) can claim up to $250,000 per year of the credit against their employer FICA tax liability. Effectively, this provision is for start-ups.

What is in the future?

With the election of a Republican president and with a Republican majority in both the House and Senate, we can expect to see significant tax changes in the near future. President-elect Trump has indicated that he would like to see the Sec. 179 limit significantly increased and the top corporate rate dropped to 15%. Watch for future legislation once President-elect Trump takes office.

If you have questions related to the business write-offs or filing due dates, please give this office a call.

Small Business: The future of pass-through entities and taxes

According to the Tax Foundation (https://taxfoundation.org/pass-through-businesses-data-and-policy/), 90% of United States (US)-based businesses are pass-through entities, such as S corporations, partnerships, and sole proprietorships. These businesses employ the majority of the private-sector workforce and provide nearly half of all business income. Income from these entities is passed through to the owner's individual tax returns. With the change in leadership in Washington, several proposals will most likely change the way in which these entities are taxed, making it more advantageous to be a small business owner.

Types of Business Structures

A number of pros and cons exist for each type of business structure depending on the owner's area of expertise and personal needs. But here are the basics:

- **Sole Proprietorship** - This is the simplest business form and is not a legal entity. It is an unincorporated business owned by one individual. There is no distinction between the business and the owner, meaning the owner includes profit or loss, credits, etc., on his or her individual return and is responsible for all of the debts and liabilities of the business. A sole proprietor may register his or her businesses with his or her state as a Limited Liability Company (LLC), which generally limits the owner's liability to the business assets of the sole proprietorship. However, the Internal Revenue Service (IRS) does not recognize LLCs, so for federal purposes, it remains a sole proprietorship.

- **Partnership** - Partnerships are similar to sole proprietorships except that there are multiple owners, including individuals or other businesses. Many forms of partnerships exist, such as general, limited, publically traded, etc., each with its own set of tax and accounting rules. A partnership's income, loss, credits, etc., are passed through to each individual or entity partner via a K-1. Like sole proprietorships, partnerships may opt for LLC status for state purposes.

- **S Corporation** – An S corporation is a U.S. domestic corporation that has filed a timely S election (Form 2553) to be treated as a pass-through entity. This means the S corporation is generally exempt from federal taxes. Instead, the corporation's income or loss, credits, etc., are included on the individual shareholders' personal tax returns. An S corporation is limited to 100 individual shareholders, files its own tax return (1120-S), and distributes the results to each shareholder via a form K-1.

- **C Corporations** – A corporation is a business entity unto itself. Unlike sole proprietorships and pass-through entities, a corporation pays taxes on its income at the entity level, and shareholders receive dividends, which are again taxable on their personal tax returns.

What are the possible tax changes?

One of President Trump's goals (https://assets.donaldjtrump.com/trump-tax-reform.pdf) was to make sure that "no business of any size, from a Fortune 500 corporation to a mom and pop shop to a freelancer living job to job, will pay more than 15% of their business income in taxes." If this proposed change comes to fruition, this will reduce the top corporate rate from 25% to 15%, and the top business income tax rates for sole proprietorships and pass-through entities from 39.6% to 15%.

In Republican leader and House Speaker Paul Ryan's "A Better Way" (https://abetterway.speaker.gov/_assets/pdf/ABetterWay-Tax-PolicyPaper.pdf) tax reform proposal, the tax rate for a sole proprietorship or a pass-through entity would be reduced to 25%. "A Better Way" proposals also include the ability of businesses to write-off investments in tangible and intangible property immediately.

What's next?

There is much debate on how these tax changes will affect the economy. In 2014, 28.3 million U.S. businesses (http://www.census.gov/programs-surveys/cbp/technical-documentation/methodology/universe-of-cbp.html) were pass-through entities. The most common by far, making up 69.8 percent of small businesses, are sole proprietors. So any changes in the tax code will have major repercussions in the entity choices that new startups make when establishing their businesses. Understanding the advantages of each business type can have heavy tax implications. According to the Tax Foundation, the 2016 state marginal tax rates for pass-through entities are close to 50%, with California having the highest at 51.8%. Compare this to Texas, which came in at #41 with 42.6%.

We will continue to monitor the developments in the coming months. It is imperative that you seek our advice before you decide to start a business or perhaps change your current business entity. A number of opportunities might help you to lessen your tax burden. But a careful discussion beyond just the tax issues needs to take place before any decisions are made.

Do I Have to File a Tax Return?

Article Highlights:

- When You Are Required to File
- Self-Employed Taxpayers
- Filing Thresholds
- Benefits of Filing Even When Not Required to File
- Refundable Tax Credits

This is a question many taxpayers ask during this time of year, and the question is far more complicated than people believe. To fully understand, we need to consider that there are times when individuals are **REQUIRED** to file a tax return, and then there are times when it is to individuals' **BENEFIT** to file a return even if they are not required to file.

When individuals are required to file:

- Generally, individuals are required to file a return if their income exceeds their filing threshold, as shown in the table below. The filing thresholds are the sum of the standard deduction for individual(s) and the personal exemption for the taxpayer and spouse (if any).
- Taxpayers are required to file if they have net self-employment income in excess of $400, since they are required to file self-employment taxes (the equivalent to payroll taxes for an employee) when their net self-employment income exceeds $400.
- Taxpayers are also required to file when they are required to repay a credit or benefit. For example, if a taxpayer acquired health insurance through a government marketplace and received advanced premium tax credit (APTC) they are required to file a return whether or not they are otherwise required to file. A return is required in order to reconcile the APTC with the premium tax credit they entitled based upon their household income for the year. So generally if you receive a 1095-A you are required to file.
- Filing is also required when a taxpayer owes a penalty, even though the taxpayer's income is below the filing threshold. This can occur, for example, when a taxpayer has an IRA 6% early withdrawal penalty or the 50% penalty for not taking a required IRA distribution.

2016 – Filing Thresholds

Filing Status	Age	Threshold
Single	Under Age 65 Age 65 or Older	$10,350 11,900
Married Filing Jointly	Both Spouses Under 65 One Spouse 65 or Older Both Spouses 65 or Older	$20,700 21,950 23,200
Married Filing Separate	Any Age	4,050
Head of Household	Under 65 65 or Older	$13,350 14,900
Qualifying Widow(er) with Dependent Child	Under 65 65 or Older	$16,650 17,900

When it is beneficial for individuals to file: There are a number of benefits available when filing a tax return that can produce refunds even for a taxpayer who is not required to file:

- *Withholding refund* – A substantial number of taxpayers fail to file their return even when the tax they owe is less than their prepayments, such as payroll withholding, estimates, or a prior overpayment. The only way to recover the excess is to file a return.
- *Earned Income Tax Credit (EITC)* – If you worked and did not make a lot of money, you may qualify for the EITC. The EITC is a refundable tax credit, which means you could qualify for a tax refund. The refund could be as high as several thousand dollars even when you are not required to file.
- *Additional Child Tax Credit* – This refundable credit may be available to you if you have at least one qualifying child.
- *American Opportunity Credit* – The maximum for this credit for college tuition paid per student is $2,500, and the first four years of postsecondary education qualify. Up to 40% of the credit is refundable when you have no tax liability, even if you are not required to file.
- *Premium Tax Credit* – Lower-income families are entitled to a refundable tax credit to supplement the cost of health insurance purchased through a government Marketplace. To the extent the credit is greater than the supplement provided by the Marketplace, it is refundable even if there is no other reason to file.

DON'T PROCRASTINATE! There is a three-year statute of limitations on refunds, and after it runs out, any refund due is forfeited. The statute is three years from the due date of the tax return. So the refund period expires for 2016 returns, which were due in April of 2017, on April 15, 2020.

For more information about filing requirements and your eligibility to receive tax credits, please contact this office.

Standard Mileage Rates for 2017 Announced

Article Highlights:

- 2017 Standard Mileage Rates
- Business, Charitable, Medical and Moving Rates
- Important Considerations for 2017
- Switching Between the Actual Expense and the Standard Mileage Rate Methods
- Employer Reimbursements
- Special Allowances for SUVs

As it does every year, the Internal Revenue Service recently announced the inflation-adjusted 2017 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.

Beginning on Jan. 1, 2017, the standard mileage rates for the use of a car (or a van, pickup or panel truck) are:

- 53.5 cents per mile for business miles driven (including a 25-cent-per-mile allocation for depreciation). This is down from 54.0 cents in 2016;
- 17 cents per mile driven for medical or moving purposes. This is down from 19 cents in 2016; and
- 14 cents per mile driven in service of charitable organizations.

The standard mileage rate for a business is based on an annual study of the fixed and variable costs of operating an automobile. The rate for medical and moving purposes is based on the variable costs as determined by the same study. The rate for using an automobile while performing services for a charitable organization is statutorily set (it can only be changed by congressional action) and has been 14 cents for over 15 years.

Important Consideration: The 2017 rates are based on 2016 fuel costs, which were at a historic low. On top of that, OPEC has decided to cut production in an effort to drive up fuel costs. The Automobile Club has predicted an increase in fuel prices in the near future. Based on the potential for substantially higher gas prices in 2017, it may be appropriate to consider switching to the actual expense method for 2017, or at least keeping track of the actual expenses, including fuel costs, repairs, maintenance, etc., so that option is available for 2017.

Taxpayers always have the option of calculating the actual costs of using their vehicle for business rather than using the standard mileage rates. In addition to the potential for higher fuel prices, the extension of the bonus depreciation though 2019 may make using the actual expense method a worthwhile consideration in the first year the vehicle is placed in service. The bonus depreciation allowance adds an additional $8,000 to the maximum first-year depreciation deduction of passenger vehicles and light trucks that have an unloaded gross vehicle weight of 6,000 pounds or less.

However, the standard mileage rates cannot be used if the actual method (using Sec. 179, bonus depreciation and/or MACRS depreciation) has been used in previous years. This rule is applied on a vehicle-by-vehicle basis. In addition, the business standard mileage rate cannot be used for any vehicle used for hire or for more than four vehicles simultaneously.

Employer reimbursement – Where employers reimburse employees for business-related car expenses using the standard mileage allowance method for each substantiated employment-connected business mile, the reimbursement is tax-free if the employee substantiates to the employer the time, place, mileage and purpose of employment-connected business travel.

Employees whose actual employment-related business mileage expenses exceed the employer's reimbursement can deduct the difference on their income tax return as a miscellaneous itemized deduction subject to the 2%-of-AGI floor. However, an employee who leases an auto and is reimbursed using the mileage allowance method can't claim a deduction based on actual expenses unless he does so consistently beginning with the first business use of the auto.

Faster Write-Offs for Heavy Sport Utility Vehicles (SUVs) - Many of today's SUVs weigh more than 6,000 pounds and are therefore not subject to the luxury auto depreciation limit rules; taxpayers with these vehicles can utilize both the Section 179 expense deduction (up to a maximum of $25,000) and the bonus depreciation (the Section 179 deduction must be applied first and then the bonus depreciation) to produce a sizable first-year tax deduction. However, the vehicle cannot exceed a gross unloaded vehicle weight of 14,000 pounds. Caution: Business autos are 5-year class life property. If the taxpayer subsequently disposes of the vehicle early, before the end of the 5-year period, as many do, a portion of the Section 179 expense deduction will be recaptured and must be added back to income (SE income for self-employed individuals). The future ramifications of deducting all or a significant portion of the vehicle's cost using Section 179 should be considered.

If you have questions related to the best methods of deducting the business use of your vehicle or the documentation required, please give this office a call.

Using Custom Fields and Classes in QuickBooks Online

QBO's tools are generic enough that myriad businesses can use it. But custom fields and classes help you shape it to meet your specific needs.

Small business accounting is not a one-size-fits-all proposition. Your company is unique in that sense; you have your own customers and products, vendors and services. Your requirements for your accounting application—what it must do and how it does that—is unlike anyone else's.

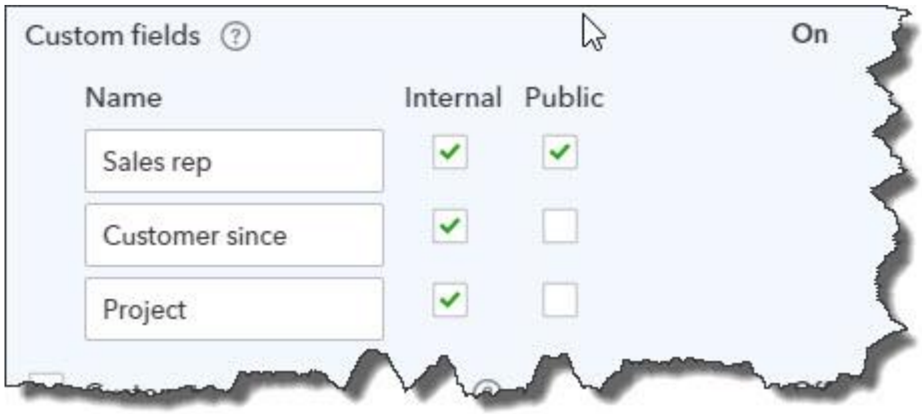
QuickBooks Online contains a standard set of features that can accommodate a broad cross-section of the millions of small businesses in the U.S. It also offers customization options that you can use to make it your own. Two of these are *custom fields* and *classes*.

Start from the Beginning with Custom Fields

You can start working with custom fields and classes at any time. They're most effective, though, when you build them in as you're just starting to use QuickBooks Online.

Let's look at custom fields first. When we refer to "fields," we simply mean the rectangular boxes in records and forms that either already contain data or that can be filled in by you, either by entering the correct word or phrase, or by selecting from drop-down lists. Most of these are already named. On an invoice, for example, there are fields for information like **Invoice date** and **Due date**.

But you can add up to three additional fields to sales forms. To do so, click the gear icon in the upper right corner of the screen and select **Account and Settings**, then click **Sales** in the vertical navigation bar on the left. The second block here contains **Sales form content**. Click **Custom fields**, and you'll see something like this:



You can define up to three custom fields on sales forms and make them visible internally and/or to your customers.

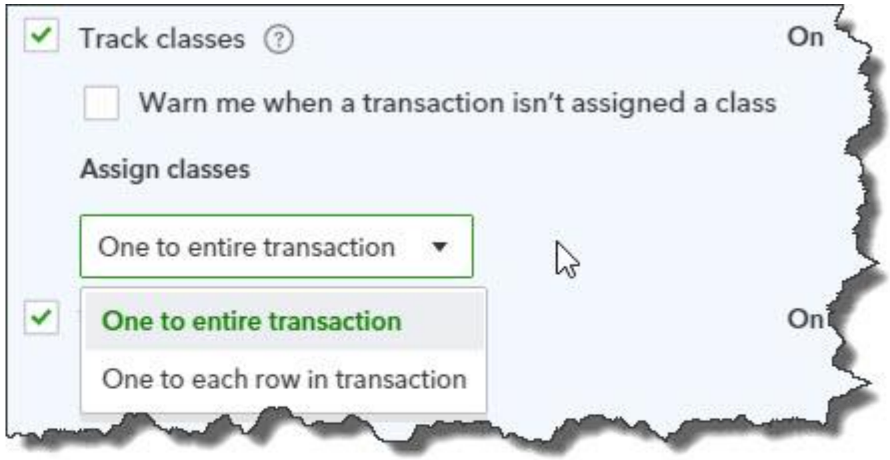
Click the word **Off** if it appears, and it will change to **On** and display three blank fields. Think carefully about what you would like to appear here, as this isn't something you'll want to change. *If you haven't yet met with us about how to set up QuickBooks Online, let's schedule some sessions to go over all your setup procedures, including custom fields.*

Enter the words or phrases you want displayed on sales forms in the three fields. Then decide whether you want them to be visible only to you and your accounting staff or to your customers, too. Click within the **Internal** and **Public** to create checkmarks. When you're done, click **Save**.

Additional Categorization with Classes
QuickBooks Online's classes provide another way to categorize transactions. You can use them to differentiate between, for example, departments or divisions. If you're a construction company, you might have different classes for **New Construction** and **Remodel**. Unlike custom fields, you're not limited to three classes.

You can filter many reports by class. QuickBooks Online contains report templates designed specifically for reporting by class, like **Sales by Class Detail**, **Purchases by Class Detail**, and **Profit and Loss by Class**.

Here's how you create your own list. Click the gear icon in the upper right of the screen and select **Account and Settings**. Then click **Advanced** in the left vertical navigation toolbar. Under the fourth heading, **Categories**, you'll see **Track classes**. If the word "Off" appears to the right, click in the box to turn this feature on. A box like this will appear:



Class-tracking in QuickBooks Online helps you create more targeted reports.

Even if you've defined a number of classes, they're not required on transactions. If you want to be reminded should you forget to classify one, click in the box in front of **Warn me when a transaction isn't assigned a class**. You can also choose to assign one class to an entire transaction or to each individual row. Click the arrow to the right of **One to entire transaction** to drop the option box down and make your choice. When you're done, click **Save**.

You can create classes as you're entering transactions by clicking the arrow next to **Class** over to the right of the screen and selecting **+Add new**. We recommend, though, that you think this through ahead of time and make at least an initial list by clicking the gear icon in the upper right and choosing **All Lists**, then **Classes**, then **New**.

Great Flexibility
These are two of the customization tools that are built into QuickBooks Online. Whether you're just getting started or you've been using the site for a while, we can introduce you to all the ways that you can make QuickBooks Online your own.