March 2017

Volume 3, Issue 1

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Monthly Newsletter

Use Direct Deposit for Faster Refunds

Article Summary:

- Speed
- Security
- Convenience
- Options
- Funding an IRA

Want your tax refund quicker? Don't wait around for a paper check. Have your federal (and state, if applicable) tax refund deposited directly into your bank account. Selecting Direct Deposit is a secure and convenient way to get your money into your pocket more rapidly. Even for taxpayers whose refunds will be delayed until after February 15, because they have an earned income credit or additional child tax credit, Direct Deposit is the quickest way to obtain a refund.

- **Speed**—When combining e-file with direct deposit, the IRS will likely issue your refund in no more than 21 days.
- **Security—**Direct Deposit offers the most secure method of obtaining your refund. There is no check to lose. Each year, the U.S. Post Office returns thousands of refund checks to the IRS as undeliverable mail.

  Direct Deposit eliminates undeliverable mail and is also the best way to guard against having a tax refund check stolen.
- **Easy**—Simply provide this office with your bank routing number and account number when we prepare your return and you'll receive your refund far more quickly than you would by check.
- **Convenience**— The money goes directly into your bank account. You won't have to make a special trip to the bank to deposit the money yourself.
- **Eligible Financial Accounts -** You can direct your refund to any of your checking or savings accounts with a U.S. financial institution as long as your financial institution accepts direct deposits for that type of account and you provide valid routing and account numbers. Examples of savings accounts include: passbook savings, individual development accounts, individual retirement arrangements, health savings accounts, Archer MSAs, and Coverdell education savings accounts.
- **Multiple Options**—You can deposit your refund into up to three financial accounts that are in your name or your spouse's name if it is a joint account. You can't have part of the refund paid by paper check and part by Direct Deposit. With the split refund option, taxpayers can divide their refunds among as many as three checking or savings accounts at up to three different U.S. financial institutions. Check with your bank or other financial institution to make sure your Direct Deposit will be accepted.
- **Deposit Can't Be to a Third Party's Bank Account**—To protect taxpayers from scammers, Direct Deposit tax refunds can only be deposited into an account or accounts owned by the taxpayer. Therefore, only provide your own account information and not account information belonging to a third party.

- **Fund Your IRA**—You can even direct a refund into your IRA or *my*RA account.

To set up a Direct Deposit, you will need to provide the bank routing number (9 digits) and your account number for each account into which you wish to make a deposit. Please have these numbers available at your appointment.
For more information regarding Direct Deposit of your tax refund and the split refund option, we would be happy to discuss your options with you at your tax appointment.

Maximizing Your Affordable Care Act Insurance Supplement

Article Highlight:

- Financial Assistance for Health Insurance
- Federal Poverty Level
- Modified Adjusted Gross Income
- Household Income
- Gambling Income
- Children's Income
- Hobby Income
- IRA Contributions

If you are getting your health insurance through a government Marketplace, you should be aware of several issues that can adversely affect the amount of financial assistance you receive to help pay for the insurance.

Background: Generally, individuals whose household income is between 100 and 400% of the federal poverty level will receive financial assistance to help them pay for the cost of their health insurance when purchased through the Marketplace. The assistance is based upon the family's household income, and the lower the household income, the greater the assistance. Household income includes the modified AGI of all family members who are required to file a return; the modified AGI (MAGI) is a taxpayer's regular AGI plus non-taxable Social Security and Railroad Retirement benefits, tax-exempt interest and excluded foreign earned income.

There are factors that can increase a taxpayer's MAGI, thus reducing or eliminating the financial assistance, without providing the family any actual increase in income.

Gambling Winnings – The tax code requires taxpayers to add gambling winnings to their gross income and deduct their losses as an itemized deduction on Schedule A to the extent of their winnings. So, even if the taxpayer has losses equal to the winnings and actually does not have any net winnings, the gambling winnings will still be included in the taxpayer's MAGI and thus will reduce the amount of financial assistance they receive to pay their health insurance premiums.

Children Working – You may have young adult dependents included in your tax family who may be working part time, such as at your local fast food restaurant. If they are required to file a tax return, then their income will be added to the family's household income. Generally, a child who is claimed as a dependent is required to file a tax return if their income exceeds the standard deduction for the year. For 2017, the standard deduction is $6,350. Thus, if a dependent child has more than $6,350 of income, that income is added to the family's household income and will reduce the financial assistance provided for purchasing health insurance.

Children Working & Receiving Social Security Benefits – If your child is receiving Social Security benefits, the benefits are generally non-taxable. However, if the child is required to file a tax return, as discussed in the prior paragraph, then all of the non-taxable Social Security benefits would also have to be added to the household's income.

Hobby Income – When you have income from an activity that is not for profit, such as a hobby, the income from the hobby is added to your gross income, and the expenses associated with that income are deducted as an itemized deduction. So, even if the taxpayer has no profit because of the expenses, the hobby income, like gambling income, will still be included in the taxpayer's MAGI and thus will reduce the amount of financial assistance they receive related to purchasing their health insurance.

IRA Contributions – On the other hand, making an IRA or other deductible pension contribution will reduce the MAGI and can increase the amount of financial assistance received that goes to purchasing health insurance.

If you are obtaining your health insurance through a government Marketplace and are receiving financial assistance (also referred to as an "advance premium tax credit"), and if any of the situations mentioned above apply to you and you have questions, please give this office a call.

Don't Overlook Standard Mileage Rate Add-Ons

Article Highlights:

- Standard Mileage Rate Expenses
- Additional Deductible Expenses
- Auto Loan Interest

Business owners often use the standard mileage rate instead of actual expenses when taking a deduction for the business use of their vehicle. The standard mileage rate is determined annually by the IRS by using data from a study conducted by an independent contractor of vehicle operating expenses based on the prior year's costs. The operating expenses include:

- Gasoline,
- Oil,
- Lubrication,
- Repairs,
- Vehicle registration fees,
- Insurance, and
- Straight line depreciation (or lease payments).

What business owners using the standard mileage rate frequently overlook is that parking and tolls, as well as state and local property taxes paid for the vehicle and attributable to business use, may be deducted in addition to the standard mileage rate.

Regardless of whether the standard mileage rate or actual expense method is used, a self-employed taxpayer may also deduct the business use portion of interest paid on an auto loan on their Schedule C. However, employees may not deduct interest paid on a consumer car loan.

If you have questions related to taking a tax deduction for the business use of your vehicle, please give this office a call.

Want to Make an IRA Contribution for Last Year? You Still Have Time.

Article Highlights:

- Contribution Due Date
- Age Rules
- Compensation Rules
- When to Contribute
- Contribution Limits
- Deductibility & Benefits
- Saver's Credit
- Choosing Between Traditional & Roth IRAs

If you wish to make an IRA contribution for 2016, you still have time. Contributions can be made up to the unextended due date of your tax return, which for 2016 is April 18, 2017.

There are several benefits to making an IRA contribution, the most important one being that you are putting money aside for your future retirement. The following is a rundown of the rules and tax tips relating to making IRA contributions and the potential tax benefits.

Age Rules - You must be under age 70 ½ at the end of the tax year to contribute to a traditional IRA. There is no age limit to contribute to a Roth IRA.

Compensation Rules - You must have taxable compensation to contribute to an IRA. This includes income from wages and salaries and net self-employment income. It also includes tips, commissions, bonuses and alimony. If you are married and file a joint tax return, only one spouse needs to have compensation in most cases.

When to Contribute - You can contribute to an IRA at any time during the year. For the contribution to count for 2016, you must contribute by the due date of your tax return. This does not include extensions. This means most people must contribute by April 18, 2017. If you contribute between January 1 and April 18 of 2017 for 2016, make sure your plan sponsor designates it as a 2016 contribution.

Contribution Limits - In general, the most you can contribute to your IRA for 2016 is the smaller of either your taxable compensation for the year or $5,500. If you were age 50 or older at the end of 2016, the maximum you can contribute increases to $6,500. If you contribute more than these limits, an additional tax will apply. The additional tax is six percent of the excess amount contributed that is in your account at the end of the year.

Deductibility – Contributions to a Traditional IRA are generally tax deductible, but the deductible amount phases out for taxpayers who are active participants in their employer's retirement plan. (Box 13 on your W-2 form from your employer will be checked if you are an active participant in your employer's plan.) A higher phaseout threshold applies to unemployed spouses who make contributions based on the other spouse's income. For 2016, the adjusted gross income (AGI) phaseout range is:

Filing Status	Phaseout Threshold	Fully Phased Out
Unmarried	$61,000	$71,000
Married Filing Jointly	$98,000	$118,000
Married Filing Separately	$0	$10,000
Spousal IRA	$184,000	$194,000

If you can deduct the Traditional IRA contribution, it will lower your AGI, taxable income

and tax liability. The amount of your AGI is used to limit certain other deductions and tax credits. So deductible IRA contributions are a way to reduce your AGI and potentially increase other deductions and credits. For example, if you are obtaining your health insurance from a Government Marketplace, lowering your AGI could actually increase the amount of your premium tax credit that helps to pay for your insurance.
Saver's Credit – For lower income taxpayers, there is a tax credit that helps you pay for your IRA contribution. The credit is a percentage of your IRA contribution ranging from 50% to 10% of your first $2,000 of IRA contributions. If you are married, it applies to each spouse individually. For 2016, the credit applies to married taxpayers with an AGI less than $61,500, single taxpayers under $30,750 and head of household filers under $46,125.

Choosing Between Traditional & Roth IRAs – Generally distributions (except for non-deductible contributions) from Traditional IRAs are taxable, while distributions from Roth IRAs are tax-free.

For more details on how an IRA contribution will impact your 2016 tax return, please give this office a call. We can also determine the effect at your tax appointment.

Tax Benefits for Parents

Article Highlights:

- Exemptions
- Child Tax Credit
- Earned Income Tax Credit
- Head of Household Filing Status
- Child Care
- Education Savings Plans
- Education Tax Credit
- Education Loan Interest
- Child's Medical Expenses

If you are a parent, whether single, married or divorced, there are a significant number of tax benefits available to you, including deductions, credits, filing status and exemptions that can help put a dent in your tax liability.

Exemptions – Regardless of filing status, you receive a $4,050 income exemption for each of your qualifying children whom you claim as a dependent on your tax return. In the case of divorced or separated parents, the exemption is allowed to the custodial parent unless the custodial parent releases the exemption to the non-custodial parent. If you are the custodial parent, you can release the exemption on a year-by-year basis or for multiple years if you wish to do so. However, being unable to foresee the future means it is generally wiser to release the exemption annually. The exemption amount gradually decreases to zero once a certain income threshold is reached; this phase out generally applies to higher income taxpayers.

Child Tax Credit – If you have dependent children, you are also entitled to a nonrefundable tax credit of $1,000 for each child under the age of 17 at the close of the year. The term "nonrefundable" means the credit can only be used to offset any tax liability you may have, and the balance of the credit is lost. If you are not filing jointly with the child's other parent and have released the exemption to that parent, then you will not qualify for the child tax credit for that child. In addition, this credit also phases out for higher income taxpayers. For lower income parents, a portion of the child tax credit, which is normally nonrefundable, can become refundable.

Earned Income Tax Credit – The earned income credit benefits lower income parents based upon your earned income, filing status (either married filing jointly or unmarried) and the number of qualifying children you have up to three. The credit for 2017 can be as much as $6,318, and better yet, the amount not used to offset your tax liability is fully refundable. This credit is phased out for higher income filers, and those with investment income of more than $3,450 for 2017 aren't eligible.

Head of Household Filing Status – The tax code provides a special filing status – head of household – for unmarried and separated taxpayers. The benefit of head of household filing status is that it provides lower tax rates and a higher standard deduction than the single status ($9,350 as opposed to $6,350 for a single individual in 2017). If you are an unmarried parent and you pay more than one-half the cost of the household for yourself and your child, you qualify for this filing status. Even if you are married, if you lived apart from your spouse the last six months of the year and pay more than one-half the cost of the household for yourself and your child, you qualify for this filing status.

Childcare – Many parents who work or are looking for work must arrange for care of their children. If this is your situation, and your children requiring care are under 13 years of age, you may qualify for a nonrefundable tax credit that can reduce your federal income taxes.

The childcare credit is an income-based percentage of up to $3,000 of qualifying care expenses for one child and up to $6,000 of qualifying care expenses for two or more children. The allowable expenses are also limited to your earned income, and if you are married, both you and your spouse must work and the limit is based upon the earned income of the spouse with the lower earnings. The credit percentages range from a maximum of 35% if your adjusted gross income (AGI) is $15,000 or less to 20% for an AGI of over $43,000.

If your employer provides dependent care benefits under a qualified plan that pays your child care provider either directly or by reimbursing you for the expenses, or your employer provides a day care facility, you may be able to exclude these benefits from your income. Of course, the same expenses aren't eligible for both tax-free income and the child care credit.

Education Savings Plans – The tax code provides two plans to save for your children's future education. The first is the Coverdell Education Savings Account, which allows non-deductible contributions of up to $2,000 per year. The earnings on these accounts are tax-free provided the amounts withdrawn from the accounts are used to pay qualified expenses for kindergarten and above. Coverdell contributions will phase out for higher income taxpayers beginning at an AGI of $190,000 for married taxpayers filing jointly and half that amount for other taxpayers.

A second plan, called a Qualified Tuition Plan (sometimes referred to as a Sec 529 plan), allows individuals to gift large sums of money for a family member's college education while continuing to maintain control of the funds. The earnings from these accounts grow tax-deferred and are tax-free if used to pay for college tuition and related expenses.

Contributions to these plans are not limited to the child's parents and can be made by virtually anyone, although if not the parents, then typically it is the grandparents who fund the accounts.

Education Credits – If you are a parent with a child or children in college, don't overlook the American Opportunity Tax Credit (AOTC). It provides a tax credit equal to 100% of the first $2,000 of qualified tuition and related expenses and 25% of the next $2,000 for each child who was enrolled at least half time. Better yet, 40% of the credit is refundable. This credit is good for the first four years of post-secondary education.

There is a second education credit called the Lifetime Learning Credit (LLC) that provides a nonrefundable tax credit equal to 20% of up to $10,000 of qualified tuition and related expenses. Unlike the AOTC, which is allowed per student, the LLC is calculated on a per-family basis with a maximum credit of $2,000 but is not limited to the first four years of post-secondary education.

You don’t even have to pay the expenses to get the credits. The credits are allowed to the person claiming the exemption for the child. So if the child’s grandparent, uncle, aunt or even an ex-spouse or the child’s other parent pays the tuition, you still get the credit as long you claim the child as your dependent.

Student Loan Interest - Generally, personal interest you pay, other than certain mortgage interest, isn't deductible on your tax return. However, there is a special deduction, up to $2,500 per year, allowed for interest paid on a student loan (also known as an education loan) used for higher education. You don’t have to itemize deductions to take advantage of this deduction, but you must have paid the interest on a loan taken out for your own or your spouse’s education or that of a dependent. So if you were legally obligated to pay the loan for one of your children who was your dependent when the loan was taken out, you may be able to claim this deduction, even if the child is no longer your dependent.

The student must have been enrolled at least half-time, and the loan must have been taken out solely to pay qualified higher education expenses. The lender can’t be a related person. This deduction phases out if your AGI is more than $65,000 ($130,000 if filing a joint return) and isn’t allowed if you use the married filing separate status.

Child’s Medical Expenses – If you itemize deductions, the unreimbursed medical expenses you pay for your dependents are counted for figuring your total medical expenses. This is true for both parents even if they do not file together as long as one of them is able to claim the child as a dependent.

If you have questions related to any of these tax benefits, please give this office a call.

Childcare Providers Enjoy Special Tax Deductions

Article Highlight:
- Auto Travel
- Capital Purchases
- Supplies
- Children’s Meals
- Business Use of the Home

If you are a childcare provider, tax law provides you with special tax breaks, including deductions for travel, capital purchases, supplies, children’s meals and the business use of your home.

Travel – Your auto expenses are based on the number of qualified business miles that you drive. Auto expenses for you (as a day care provider) could include transportation:
- To and from a class taken to enhance your day care skills;
- For field trips with those for whom you are providing care;
- For errands related to day care business (e.g., going to the bank to deposit day care receipts or to the store to shop for day care supplies); or
- To chauffeur day care attendees.

To claim business use of your vehicle, use the actual expense method or the standard mileage rate. However, the actual method requires far more detailed records; you must keep track of your business miles and total miles to prorate the costs of fuel, insurance, repairs, etc. You will probably find the standard mileage rate to be far less complicated, as you only need to contemporaneously record your business miles and the purpose of each trip. Even with the standard method, you'll still need to know the total miles driven for the year. For 2017, the rate is 53.5 cents per mile, down from 54.0 cents per mile in 2016.

Capital Purchases – Capital items are those that normally last more than one year, including cribs and playground equipment. Be sure to keep receipts for these items, as they can generally be depreciated or expensed, whichever works best for you.

Supplies and Business Expenses – The cost of items such as crayons, coloring books, paper plates, cups, cleaning supplies, and first aid supplies are also deductible in the year they are purchased. However, you need to keep receipts for all such purchases.

Food – You can also deduct the actual cost of any food that is provided to the children in your care. It can be a bookkeeping nightmare to keep track of which grocery items were purchased for the childcare business and which were for personal consumption. Luckily, the government allows a care provider to deduct standard meal rates in lieu of actual amounts. This method does not require you to keep grocery receipts, and the IRS will not contest a food deduction based on the standard rates. The rates are the same throughout the contiguous U.S. states, with higher allowances for Alaska and Hawaii.

Year	State	Breakfast	Lunch	Dinner	Snack
2016	Contiguous	$1.32	$2.48	$2.48	$0.74
	Alaska	$2.11	$4.02	$4.02	$1.20
	Hawaii	$1.54	$2.90	$2.90	$0.86
2017	Contiguous	$1.31	$2.46	$2.46	$0.73
	Alaska	$2.09	$3.99	$3.99	$1.19
	Hawaii	$1.53	$2.88	$2.88	$0.86

Business Use of the Home – Generally, when a taxpayer claims a business deduction for the use of his or her home, the portion of the home that is used must be exclusively used for business purposes. Knowing that childcare providers do not use a specific space in the home 100 percent of the time, Congress added an exception related to the business's licensing, certification, registration, or approval as a day care center or family/group care home under the provisions of any applicable state law. This exception applies only if the childcare owner or operator has applied for, been granted, or is exempt from such approval. In addition, the exception does not apply if the services performed are primarily educational or instructional in nature (e.g., musical instruction). However, the exception does apply if the services are primarily custodial, such that any educational, developmental or enrichment activities are only incidental to the custodial services. The services must be provided for adults age 65 or older, children, or other individuals who are physically or mentally incapable of caring for themselves.

When calculating the percentage use of a home for business, there are two factors: the space used to operate the day care business and the amount of time that the space is used to provide day care, including preparation and cleaning time.

Example – *Edna uses her living room, kitchen, and bathroom ten hours a day, five days a week to provide licensed day care services. The home is 2,400 square feet, and the living room, kitchen, and bathroom are a combined 1,400 square feet. Edna's percentage use of her home for business is determined as follows:*

$$\frac{1{,}400}{2{,}400} \times \frac{10}{24} \times \frac{5}{7} = .1736 \text{ or } \mathbf{17.36\%}$$

Edna's Home Use Expenses (full year)

Utilities	*$645*	
Homeowner's Insurance	*550*	
Mortgage Interest	*6,150*	
Property Tax	*2,550*	
Depreciation	*4,585*	
TOTAL	***$14,480***	
Business Deduction	*$2,514 (.1736 x $14,480)*	

There is also a simplified deduction method for the business use of a home; it may be useful for individuals who work from a home office, but it is generally unsuitable for a childcare business.

The deduction for the business use of a home is limited to gross income from the business. If that limit applies to you, any home mortgage interest and property taxes that you have paid, as well as any casualty losses that you have incurred for the year, are always deductible when you itemize deductions, regardless of whether you claim a deduction for the business use of the home.

If you have questions related to how any of these tax breaks apply to your childcare business, please give this office a call.

Why Do Small Businesses Fail, and How Can I Prevent This?

Many people dream of starting a small business. This is a dream that can become a reality, or—as happens to about 33% of prospective business owners, according to the Small Business Administration – it can result in dismal failure within two years. There's no magic-bullet solution to ensure a successful business, but if you don't want to be in that 33%, you should be aware of the common reasons that small businesses fail.

1. Poor cash flow.

Uneven, unstable, or nonexistent cash flow is the #1 killer of small businesses. New business owners are liable to run into this problem because they have few or no paying customers and because they must overcome an onslaught of new expenses to keep their doors open. Depending on the type of business, the impact can be severe (particularly for brick-and-mortar businesses that must pay rent).

Heavily project-based businesses are also apt to run into cash-flow problems if getting paid takes too long, as the bills don't stop coming due. Before trying to predict income, sit down with an accountant to forecast your expenses so that you know how much savings you should have on hand and how much capital to seek.

2. Lack of managerial experience.

Say that you have decided to open a specialty bake shop because you're an incredibly talented pastry chef. You may know how to pipe a macaron better than the old French masters, but that doesn't mean you know how to *run* a bake shop. Many talented individuals are fantastic at the chief service or product that their business offers but lack the business insight they need to make it succeed.

An MBA is not needed to run a business, but it certainly helps to take business courses dedicated to the appropriate industry and to enlist a small-business consultant to help draft a business plan and put it into action. Talk to other business owners of all types and learn from them; ask them what they would and wouldn't do again when running their businesses.

3. Not providing what the market wants.

There's a reason that small-business ownership is just a dream for some people; often, a person's dream career just is not realistic because it does not have a market. If you live in a small town and want to open a formal dress shop, you should ask, "Do the people in this town have the income and tastes to present sufficient demand, or would a big city have a better market?"

Whether businesses target local or general markets, the inability to find a customer base is often what causes them to fail, despite their owners' love. Do some market research first before deciding to invest in a business or start a new product line. Such research takes time and money, but it can prevent a major loss—or reveal a major opportunity in a different place or another line of work.

4. Not keeping up with the pace of growth.

Have you ever heard of "the law of diminishing returns"? It refers to the inability to keep up with growth—both forecasted and unexpected. This problem causes a lot of business owners to crash and burn. When a business has been in famine mode for years because of cash-flow issues but suddenly begins to take off, it can be difficult for its owner to change his or her attitudes about money.

When a business grows, it eventually needs to hire help to keep up with the number of customers, as the owner can't do it all; if this doesn't happen, the business will start to lose money. Is that slow, old computer taking up too much time on high-value gigs and preventing work from getting done faster? Invest in both people and equipment when the time comes. Don't fall victim to the law of diminishing returns.

5. Not Learning From Failure

Even the wealthiest business owners in the world have had failures, whether they are projects or entire companies. They got to where they are by learning from their failures.

Based on the common causes of business failure outlined above, if the market doesn't want your product, you must adapt. If a lack of time or poor-quality equipment are holding you back, you must hire help or invest in faster computers and more efficient machinery.

It's only truly a failure if you do not learn from your mistakes.

By getting a proper handle on your finances and properly managing of all of your resources (including labor), you can drastically increase the chances that your business will succeed. Sometimes, the market is just fickle, requiring you to adapt to changing demands and technologies. By being prepared for all the intricacies of running a business and by having the wisdom to learn from failure, your business won't be among the 33% that fail in the first 2 years.