May 2017
Volume 5, Issue 1

Leslie A. Cesario, Ltd.
Monthly Newsletter

What Trump's Tax Proposals Mean To You And Your Business

On April 26, 2017, with some fanfare, the Trump administration has provided information on proposed tax law changes, many of which mirror his previous tax policy statements. Although these proposals lack significant detail, here is what the president proposes and how it might impact your tax liability:

Business Tax Rates: Trump's proposal would cut the top rate on corporate taxable income from 35% to 15%. Presumably, the 15% rate would apply to all business income, including small family-owned businesses.

Individual Tax Rates – Under Trump's proposal there would only be three tax brackets, 10, 25, and 35%, down from the current seven tax brackets: 10, 15, 25, 28, 33, 35 and 39.6%. The brackets are applied in steps, so as a taxpayer's income increases the increase is taxed at increasingly higher rates. The table below illustrates the current 2017 tax brackets.

Filing Status	Single	Head of Household	Married Filing Jointly	Married Filing Separately
10%	$9,325	$13,350	$18,650	$9,325
15%	$37,950	$50,800	$75,900	$37,950
25%	$91,900	$131,200	$153,100	$76,550
26%	$191,650	$212,500	$233,350	$116,675
33%	$416,700	$416,700	$416,700	$208,350
35%	$418,400	$444,550	$470,700	$235,350
39.6%	$418,401+	$444,551+	$470,701+	$235,351+

The current proposal generally mirrors the rates Trump proposed while on the campaign trail. Under the previous proposal, for married taxpayers filing jointly, the lowest rate would apply to income less than $75,000; the 25% rate would apply to income more than $75,000 but less than $225,000; and the 33% rate would apply to income of more than $225,000. Brackets for single filers were 1/2 of joint filer amounts.

However, the income brackets where the rates apply have not been specified in the current proposal and are subject to negotiations with Congress. Regardless, the reduction of the top tax rate from 39.6 to 35% will provide a huge tax saving for wealthy taxpayers.

Standard Deduction – Trump originally suggested a standard deduction of $25,000 for singles and $50,000 for married couples. He has since toned that down and is now proposing to double the standard deduction, which is currently (2016) $12,600 for a married couple filing jointly and $6,300 for single taxpayers. Under Trump's proposal the standard deductions would increase to approximately $24,000 for married couples and $12,000 for single taxpayers. According to an estimate by the nonpartisan Tax Policy Center (TPC), 27 million (60%) of the 45 million filers who would otherwise itemize in 2017 would opt for the standard deduction. This change would generally provide a small tax benefit to lower-income taxpayers.

Itemized Deductions – During the campaign, Trump proposed limiting itemized deductions to $100,000 for single filers and $200,000 for joint filers, which would cause an increase in taxes for the wealthiest taxpayers and not impact middle-income taxpayers. However, the current proposal would do away with all itemized deductions except those that incentivize home ownership and charitable deductions. The theory is that the other deductions primarily benefit the wealthiest taxpayers. However, this would also have a significant impact on other taxpayers as well. Here are a few examples of its effects:

- *Medical deduction* – Medical deductions would be eliminated, impacting seniors with significant medical costs during the year.
- *State & Local Tax* – Taxpayers living in states with income tax would no longer be able to deduct the state and local income taxes they pay.
- *Employee Business Expenses* – It would also eliminate the deduction for employee business expenses.
- *Recreational Gambling* – Those who gamble recreationally would have to pay taxes on all their winnings and would not be able to deduct losses.

Other Deductions – Under the Trump proposal, virtually all deductions other than retirement savings would be eliminated. If that is the plan, then presumably it would include moving deductions, educators' expenses, self-employed health insurance, student loan interest, and alimony paid. None of these changes would provide any significant benefit to the wealthy but would impact lower-income taxpayers.

Alternative Minimum Tax (AMT) – Trump would eliminate the AMT, which primarily impacts wealthier taxpayers.

Estate Tax – The proposal would also eliminate the estate tax, which applies to wealthy taxpayers with taxable estates in excess of $5,450,000 (2016). The number of taxable estates in the U.S. per year is just over 10,000.

This proposal was presented as a one-page outline without any fundamental details. Assuming the proposal is not dead on arrival, expect significant changes to be made by Congress. For instance, the senators and representatives from states with income tax will certainly want to retain state income tax as an itemized deduction for their constituents, including both Democrats and Republicans. And of course, there needs to be replacement revenue for the cuts to avoid a national debt increase.

As the tax reform debate winds through Washington, rest assured we will stay on top of the latest proposals and final legislation. We will continue to keep you informed during this wild ride.

Who Controls the Funds in a Section 529 Plan?

Article Highlights:

- Qualified Tuition Accounts
- Custodial Accounts
- Who Can Contribute?
- Who Controls the Account?
- Changing the Account Beneficiary

This question frequently arises: Who controls the funds held in a Section 529 qualified tuition account? These accounts can become quite large, as they are limited only by the projected cost of a college education, and those costs will vary between state plans. Some states base their maximums on the cost of an in-state, four-year education, but others use the cost of the most expensive schools in the U.S.—including graduate studies. Most have limits in excess of $200,000, and some can reach $475,000 or more. Thus, it is only natural that those who fund an account would be concerned about who controls the account's distributions. This is especially true when grandparents or others are making contributions to an account that is limited only by gift-tax considerations.

Some parents will simply save money for their minor children's college costs in a custodial account; these accounts become the children's property once they reach the age of majority, depending upon state law, which is usually 18 or 21. At that point, the parents lose control. Unlike these child custodial accounts, Section 529 plans are not irrevocable gifts: The parent or other account owner retains control.

Generally, the same person who contributed the money controls the Section 529 account. This doesn't have to be the case, however. Someone else, such as a grandparent, could make a donation but name the child's parent as the account owner, or a parent could establish the account and allow others to contribute to it.

Money cannot be removed from the account without the permission of the account owner. If the child (the designated beneficiary of the plan) decides not to go to school, the account owner can simply change the beneficiary to another "family member," a term that, for the purposes of beneficiary changes, can refer to the beneficiary's sons, daughters, brothers, sisters, nephews and nieces, certain in-laws, and any spouse of any of those individuals—but not the spouse of the original beneficiary.

This rule for beneficiary changes gives parents and other donors the flexibility to use the funds for the family member who needs them the most. For example, if a designated beneficiary decides not to attend college or receives a full scholarship, another child can be named (as long as the new child is a member of the family). Alternately, if funds remain in the plan after a child has finished school, a younger family member can be named as the beneficiary for the balance.

There are no tax issues if the transfer is within the same generation or an older generation of the family, such as changing the beneficiary to a sibling of the original beneficiary. However, if the transfer is to a beneficiary in a younger generation, the transfer is considered a taxable gift from the old beneficiary to the new beneficiary, and a gift tax return will need to be filed.

If you have questions related to Section 529 plans and how they might be used to save for a child's future education, please call.

Consequences of Filing Married Separate

Article Highlights:

- Joint & Several Liability
- Exemptions
- Itemizing Deductions
- Social Security Income
- Section 179 Deduction
- Special Passive Loss Allowance
- Traditional IRA Deduction Phase-Out
- Roth IRA Contribution Phase-Out
- Coverdell Education Accounts
- Education Tax Credits
- Higher Education Interest
- Education Exclusion for U.S. Savings Bond Interest
- Premium Tax Credit

- Earned Income Tax Credit
- Child Care Credit
- Halved Deductions & Credits
- Head of Household Filing Status

If you are married and thinking about not filing a joint return with your spouse, you will most likely use the married filing separate (MFS) filing status. If you are considering filing MFS, then you should be aware that the tax code is laced with special restrictions so that married individuals cannot benefit by filing MFS. This article describes some of the more frequently encountered issues when making the choice of filing status. Note: dollar amounts are those for 2017.

Joint & Several Liability - When married taxpayers file joint returns, both spouses are responsible for the tax on that return. What this means is that one spouse may be held liable for all the tax due on a return, even if the other spouse earned all the income on that return. In some marriages, this becomes an issue and causes the spouses to decide to file separately. In other cases, especially second marriages, the couple may want to keep their finances separate. Unless all the income, exemptions, credits and deductions are divided equally, which usually happens in community property states, this generally causes the incomes to be distorted and could easily push one of the spouses into a higher tax bracket and create a greater combined tax than filing jointly. Being in a separate property state, where each spouse claims their own earnings, can also create an uneven allocation of income and a higher tax bracket for one of the spouses.

Exemptions – Taxpayers are allowed a $4,050 tax exemption for each of their dependents. However, the $4,050 allowance cannot be divided between the MFS filers, so only one of the filers can claim a dependent's exemption, and where there are multiple dependents, the spouses would need to allocate the exemptions between them.

Itemizing Deductions – To prevent taxpayers from filing MFS and one spouse taking advantage of itemized deductions and the other utilizing the standard deduction, the tax regulations require both to itemize if one of them does.

Social Security Income – When filing a joint return, Social Security (SS) income is not taxable until the modified AGI (MAGI) – which is regular AGI (without Social Security income) plus 50% of the couple's Social Security income plus tax-exempt interest income and plus certain other infrequently encountered additions – exceeds a taxable threshold of $32,000. However, for married taxpayers who have lived together at any time during the year and are filing married separate, the threshold is zero, generally making more of the Social Security income taxable.

Section 179 Deduction – Businesses can elect to expense, instead of depreciate, up to $510,000 of business purchases, generally including equipment, certain qualified leasehold property and off-the-shelf computer software. The $510,000 cap is reduced by $1 for every $1 that the qualifying purchases exceed $2,030,000 for the year. Married taxpayers are treated as one taxpayer for purposes of the Section 179 expense limit. Thus, they generally must split the limit equally unless they can agree upon and elect an unequal split.

Special Passive Loss Allowance – Passive losses are generally losses from business and rental activities in which a taxpayer does not materially participate. Those losses are not allowed except to offset income from other passive activities. Rental property is an example of a passive activity, and for lower-income taxpayers, a special allowance permits taxpayers who are actively involved in the rental activity to currently deduct a loss of up to $25,000 if their AGI does not exceed $100,000. That $25,000 special loss allowance phases out by 50 cents for each $1 of AGI over $100,000 and is completely eliminated when the AGI reaches $150,000. When filing separately, this special allowance is not allowed unless the spouses live apart the entire year, and then the allowance is reduced to $12,500 each.

Traditional IRA Deduction Phase-Out – If a married taxpayer filing jointly is participating in a qualified employer pension plan, the deductibility of a traditional IRA contribution is phased out ratably for an AGI between $99,000 and $119,000. If the taxpayers file married separate, the phase-out begins at $0 if the taxpayer participates in their employer's plan, and when the AGI reaches $10,000, no traditional IRA deduction is allowed. So little, if any, IRA deduction will be available to such an MFS filer.

Roth IRA Contribution Phase-Out – Taxpayers may choose to contribute to a non-deductible Roth IRA. However, Roth IRA contributions are ratably phased out for higher-income married filing jointly taxpayers with an AGI between $186,000 and $196,000. For a married taxpayer filing MFS status, that AGI phase-out range drops to $0 through $9,999, virtually eliminating the possibility of a Roth contribution.

Coverdell Education Accounts – Taxpayers are allowed to contribute up to $2,000 per beneficiary to a Coverdell education savings account annually. However for joint filers, the amount that can be contributed ratably phases out for AGIs between $190,000 and $220,000. For married filing separate taxpayers, the phase-out is half that amount, from $95,000 to $110,000.

Education Tax Credits – Taxpayers are allowed a tax credit, called the American Opportunity Tax Credit, of up to $2,500 per family member enrolled at least half-time in college for the cost of tuition and qualified expenses. This credit phases out ratably for higher-income married taxpayers filing jointly with an AGI between $160,000 and $180,000.

There is a second higher-education credit called the Lifetime Learning Credit, which provides a credit of up to $2,000 per family. This credit also phases out ratably for higher-income married taxpayers filing jointly with an AGI between $112,000 and $132,000.

However, neither credit is allowed for married filing separate taxpayers.

Higher Education Interest – Taxpayers can take a deduction of up to $2,500 for student loan interest paid on higher-education loans. Like other benefits, it is phased out for higher-income married taxpayers filing jointly, in this instance when the AGI is between $135,000 and $165,000. It is not allowed at all for taxpayers filing as married separate.

Education Exclusion For U.S. Savings Bond Interest – Although not frequently encountered, interest from certain U.S. Savings Bonds can be excluded if used to pay higher-education expenses for the taxpayers and their dependents. The exclusion phases out for married taxpayers with an AGI between $117,250 and $147,250. This deduction is not allowed at all when filing married separate.

Premium Tax Credit – For married taxpayers who qualify for the PTC (health insurance subsidy) under Obamacare, if they file married separate, they may be required to repay the subsidy.

Earned Income Tax Credit – This is a refundable tax credit that rewards lower-income taxpayers for working and can be as much $6,318 for families with three or more qualifying children. Taxpayers filing as married separate are not qualified for this credit.

Child Care Credit – If both spouses work and incur child care expenses, they qualify for the child care credit. However, for those married filing separate, the credit is not allowed.

Halved Deductions & Credits – Many of the deductions and credits allowed to a married couple filing jointly are cut in half for the married filing separate filing status. They include:

- Standard Deduction
- Standard Deduction Phase-Out

- Alternative Minimum Tax Exemptions
- Alternative Minimum Tax Exemptions Phase-Outs
- Child Tax Credit Phase-Out

Head of Household Filing Status – Where a married couple is not filing jointly, one or both spouses may qualify for the more beneficial Head of Household (HH) filing status rather than having to file using the MFS status. A married individual may use the HH status if they lived apart from their spouse for at least the last six months of the year and paid more than one-half of the cost of maintaining his or her home as a principal place of abode for more than one-half the year of a child, stepchild or eligible foster child for whom the taxpayer may claim a dependency exemption. (A nondependent child only qualifies if the custodial parent gave written consent to allow the dependency to the non-custodial parent or if the non-custodial parent has the right to claim the dependency under a pre-'85 divorce agreement.)

As you can see, there are a significant number of issues that need to be considered when making the decision to use the married filing separate status. And these are not all of them, but only the more significant ones. The filing status decision should not be made nonchalantly, as it can have significant impact on your taxes. Please contact this office for assistance in making that crucial decision.

Uber (and Lyft) Drivers' Tax Treatment

Article Highlights:

- Independent Contractors
- How Uber Works
- Income Reporting
- Automobile Operating Expenses
- Business Use Of The Home
- Vehicle Write-Offs
- Cash Tips
- Deductions Other Than The Vehicle
- Self-Employment Tax

If you are one of the many individuals in the ridesharing business who is working through services such as Uber or Lyft – or if you are thinking of getting into this business – you may have some questions about the tax issues associated with this fast-growing business model. Generally, these drivers do not work full time, and their driving jobs are supplementary to their primary employment.

Uber and Lyft treat drivers as independent contractors as opposed to employees. However, more than 70 pending lawsuits in federal court, plus an unknown number in the state courts, are challenging this independent contractor status. As the courts have not yet reached a decision on that dispute, this analysis does not address the potential employee/independent contractor issue related to rideshare divers; it only deals with the tax treatment of drivers who are independent contractors, using Uber as the example.

How Uber Works – Each fare (customer) establishes an account with Uber using a credit card (CC), Paypal, or another method. The fare uses the Uber smartphone app to request a ride, and an Uber driver picks that person up and takes him or her to the destination. Generally, no money changes hands, as Uber charges the fare's CC, deducts both its fee and the CC processing fee, and then deposits the net amount into the driver's bank account.

Income Reporting – Uber issues each driver a Form 1099-K reflecting the total amount charged for the driver's fares. Because the IRS will treat the 1099-K as gross business income, it must be included on line 1 (gross income) of the driver's Schedule C before adjusting for the CC and Uber service fees. Uber then deposits the net amount into the driver's bank account, reflecting the fares minus the CC and Uber fees. Thus, the sum of the year's deposits from Uber can be subtracted from the 1099-K amount, and the difference can be taken as an expense or as a cost of goods sold. Currently, a third party operates Uber's billing, coordinates the drivers' fares and issues the drivers' 1099-Ks.

Automobile Operating Expenses – Uber also provides an online statement to its drivers that details the miles driven with fares and the dollar amounts for both the fares and the bank deposits.

Although the Uber statement mentioned above includes the miles driven for each fare, this figure only represents the miles between a fare's pickup point and delivery point. It does not reflect the additional miles driven between fares. Drivers should maintain a mileage log to track their total miles and substantiate their business mileage.

A driver can choose to use the actual-expense method or the optional mileage rate when determining operating expenses. However, the actual-expense method requires far more detailed recordkeeping, including records of both business and total miles and costs of fuel, insurance, repairs, etc. Drivers may find the standard mileage rate far less complicated because they only need to keep a contemporaneous record of business miles, the purposes of each trip and the total miles driven for the year. For 2017, the standard mileage rate is 53.5 cents per mile, down from 54.0 cents per mile in 2016.

Whether using the actual-expense method or the standard mileage rate, the costs of tolls and airport fees are also deductible.

When the actual-expense method is chosen in the first year that a vehicle is used for business, that method must be used for the duration of the vehicle's business use. On the other hand, if the standard mileage rate is used in the first year, the owner can switch between the standard mileage rate and the actual-expense method each year (using straight-line deprecation).

Business Use Of The Home – Because drivers conduct all of their business from their vehicle, and because Uber provides an online accounting of income (including Uber fees and CC charges), it would be extremely difficult to justify an expense claim for a home office. Some argue that the portion of the garage where the vehicle is parked could be claimed as a business use of the home. The falsity with that argument is that, to qualify as a home office, the space must be used exclusively for business; because it is virtually impossible to justify that a vehicle was used 100% of the time for business, this exclusive requirement cannot be met.

Without a business use of the home deduction, the distance driven to pick up the first fare each day and the distance driven when returning home at the end of a shift are considered nondeductible commuting miles.

Vehicle Write-off - The luxury auto rules limit the annual depreciation deduction, but regulations exempt from these rules any vehicle that a taxpayer uses directly in the trade or business of transporting persons or property for compensation or hire. As a result, a driver can take advantage of several options for writing off the cost of the vehicle. These include immediate expensing, the depreciation of 50% of the vehicle's cost, normal deprecation or a combination of all three, allowing owner-operators to pick almost any amount of write-off to best suit their particular circumstances, provided that they use the actual-expense method for their vehicles.

The options for immediate expensing and depreciating 50% of the cost are available only in the year when the vehicle is purchased and only if it is also put into business use during that year. If the vehicle was purchased in a year prior to the year that it is first used in the rideshare business, either the fair market value at that time or the original cost, whichever is lower, is depreciated over 5 years.

Cash Tips – Here, care must be taken, as Uber does not permit fares to include tips in their CC charges but Lyft does. Any cash tips that drivers receive must be included in their Schedule C gross income.

Deductions Other Than the Vehicle – Possible other deductions include:

- Cell phone service
- Liability insurance
- Water for the fares

Self-Employment Tax – Because the drivers are treated as self-employed individuals, they are also subject to the self-employment tax, which is the equivalent to payroll taxes (Social Security and Medicare withholdings) for employees—except the rate is double because a self-employed individual must pay both the employer's and the employee's shares.

If you are currently a driver for Uber or Lyft, or if you think that you may want to get into that business, and if you have questions about taxation in the rideshare industry and how it might affect your situation, please give this office a call.

Tax Implications of Crowdfunding

Article Highlights:

- Crowdfunding Sites
- Gifts
- Charitable Gifts
- Business Ventures
- SEC Registration

Raising money through Internet crowdfunding sites prompts questions about the taxability of the money raised. A number of sites host money-raising projects for fees ranging from 5 to 9%, including GoFundMe, Kickstarter, and Indiegogo. Each site specifies its own charges, limitations, and withdrawal processes. Whether the money raised is taxable depends upon the purpose of the fundraising campaign.

Gifts – When an entity raises funds for its own benefit and the contributions are made out of detached generosity (and not because of any moral or legal duty or the incentive of anticipated economic benefit), the contributions are considered tax-free gifts to the recipient.
On the other hand, the contributor is subject to the gift tax rules if he or she contributes more than $14,000 to a particular fundraising effort that benefits one individual; the contributor is then liable to file a gift tax return. Unfortunately, regardless of the need, gifts to individuals are never tax deductible.

The "gift tax trap" occurs when an individual establishes a crowdfunding account to help someone else in need (whom we'll call the beneficiary) and takes possession of the funds before passing the money on to the beneficiary. Because the fundraiser takes possession of the funds, the contributions are treated as a tax-free gift to the fundraiser. However, when the fundraiser passes the money on to the beneficiary, the money then is treated as a gift from the fundraiser to the beneficiary; if the amount is over $14,000, the fundraiser is required to file a gift tax return and to reduce his or her lifetime gift and estate tax exemption. Some crowdfunding sites allow the fundraiser to designate a beneficiary so that the beneficiary has direct access to the funds.

Charitable Gifts – Even if the funds are being raised for a qualified charity, the contributors cannot deduct the donations as charitable contributions without proper documentation. Taxpayers cannot deduct cash contributions, regardless of the amount, unless they can document the contributions in one of the following ways:

- *Contribution Less Than $250*: To claim a deduction for a contribution of less than $250, the taxpayer must have a cancelled check, a bank or credit card statement, or a letter from the qualified organization; this proof must show the name of the organization, the date of the contribution, and the amount of the contribution.
- *Cash contributions of $250 or More* – To claim a deduction for a contribution of $250 or more, the taxpayer must have a written acknowledgment of the contribution from the qualified organization; this acknowledgment must include the following details:
  - The amount of cash contributed;
  - Whether the qualified organization gave the taxpayer goods or services (other than certain token items and membership benefits) as a result of the contribution, along with a description and good-faith estimate of the value of those goods or services (other than intangible religious benefits); and
  - A statement that the only benefit received was an intangible religious benefit, if that was the case.

Thus, if the contributor is to claim a charitable deduction for the cash donation, some means of providing the contributor with a receipt must be established.

Business Ventures – When raising money for business projects, two issues must be contended with: the taxability of the money raised and the Security and Exchange Commission (SEC) regulations that come into play if the contributor is given an ownership interest in the venture.

- *No Business Interest Given* – This applies when the fundraiser only provides nominal gifts, such as products from the business, coffee cups, or T-shirts; the money raised is taxable to the fundraiser.
- *Business Interest Provided* – This applies when the fundraiser provides the contributor with partial business ownership in the form of stock or a partnership interest; the money raised is treated as a capital contribution and is not taxable to the fundraiser. (The amount contributed becomes the contributor's tax basis in the investment.) When the fundraiser is selling business ownership, the resulting sales must comply with SEC regulations, which generally require any such offering to be registered with the SEC. However, the SEC regulations were modified in 2012 to carve out a special exemption for crowdfunding:
  - **Fundraising Maximum** - The maximum amount a business can raise without registering its offering with the SEC in a 12-month period is $1 million. Non-U.S. companies, businesses without a business plan, firms that report under the Exchange Act, certain investment companies, and companies that have failed to meet their reporting responsibilities may not participate.
  - **Contributor Maximum -** The amount an individual can invest through crowdfunding in any 12-month period is limited:
    - If the individual's annual income or net worth is less than $100,000, his or her equity investment through crowdfunding is limited to the greater of $2,000 or 5% of the investor's annual net worth.

- If the individual's annual income or net worth is at least $100,000, his or her investment via crowdfunding is limited to 10% of the investor's net worth or annual income, whichever is less, up to an aggregate limit of $100,000.

If you have questions about crowdfunding-related tax issues, please give this office a call.

Naming Your IRA Beneficiary – More Complicated Than You Might Expect

Article Highlights:

- How Naming Beneficiaries Impacts Traditional IRA Distributions
- The Impact of Naming Your Trust as a Beneficiary
- IRA Beneficiary Taxation

The decision concerning whom you wish to designate as the beneficiary of your traditional IRA is critically important. This decision affects:

- The minimum amounts you must withdraw from the IRA when you reach age 70 ½;
- Who will get what remains in the account after your death; and
- How that IRA balance can be paid out to beneficiaries.

What's more, a periodic review of whom you've named as IRA beneficiaries is vital to ensure that your overall estate planning objectives will be achieved in light of changes in the performance of your IRAs and in your personal, financial, and family situation. For example, if your spouse was named as your beneficiary when you first opened the account several years ago and you've subsequently divorced, your ex-spouse will remain the beneficiary of your IRA unless you notify your IRA custodian to change the beneficiary designation.

The issue of naming a trust as the beneficiary of an IRA comes up regularly. There is no tax advantage to naming a trust as the IRA beneficiary. Of course, there may be a non-tax-related reason, such as controlling a beneficiary's access to money; thus, naming a trust rather than an individual(s) as the beneficiary of an IRA could achieve that goal. However, that is not typically the case. Naming a trust as the beneficiary of an IRA eliminates the ability for multiple beneficiaries to maximize the opportunity to stretch the required minimum distributions (RMDs) over their individual life expectancies.

Generally, trusts are drafted so that IRA RMDs will pass through the trust directly to the individual trust beneficiary and, therefore, be taxed at the beneficiary's income tax rate. However, if the trust does not permit distribution to the beneficiary, then the RMDs will be taxed at the trust level, which has a tax rate of 39.6% on any taxable income in excess of $12,500 (2017 rate). This high tax rate applies at a much lower income level than for individuals.

Distributions from traditional IRAs are always taxable whether they are paid to you or, upon your death, paid to your beneficiaries. Once you reach age 70 ½, you are required to begin taking distributions from your IRA. If your spouse is your beneficiary, he or she can delay distributions until he or she reaches age 70 ½ if your spouse is under the age of 70 ½ upon inheritance of your IRA. The rules are tougher for non-spousal beneficiaries, who generally must begin taking distributions based upon a complicated set of rules.

Since IRA distributions are taxable to beneficiaries, beneficiaries usually wish to spread the taxation over a number of years. However, the tax code limits the number of years based on whether the decedent has begun his or her age 70 ½ RMDs at the time of his or her death.

To ensure that your IRA will pass to your chosen beneficiary or beneficiaries, be certain that the beneficiary form on file with the custodian of your IRA reflects your current wishes. These forms allow you to designate both primary and alternate individual beneficiaries. If there is no beneficiary form on file, the custodian's default policy will dictate whether the IRA will go first to a living person or to your estate.

This is a simplified overview of the issues related to naming a beneficiary and the impact on post-death distributions. Uncle Sam wants the tax paid on the distributions, and the rules pertaining to how and when beneficiaries must take taxable distributions are very complicated.

It should also be noted that some members of Congress have expressed their displeasure with stretch-out IRAs that have permitted some beneficiaries to extend for decades the payout period from the IRAs they inherited. These legislators would prefer that total distribution from inherited IRAs be made within five years after the IRA owner's death. So it is possible that we will see tax law changes in this area.

It may be appropriate to consult with this office regarding your particular circumstances before naming beneficiaries.

Deducting Convention Expenses

Article Highlights:

- Trade or Business Requirement
- North American Area Travel
- Travel Outside the North American Area
- Expense Limitations Outside of the North American Area
- Cruise Ships

Generally, an individual can deduct travel expenses from attending conventions, seminars or similar types of meetings within the North American area, provided that attendance benefits the taxpayer's trade or business. However, family members' travel expenses are not deductible, and neither are expenses from attending investment, political, social or other types of meetings not related to the taxpayer's trade or business.

The North American area includes the United States, U.S. possessions, Canada, Mexico, Bermuda, Barbados, Costa Rica, Dominica, the Dominican Republic, Grenada, Guyana, Honduras, Jamaica, Saint Lucia, and Trinidad and Tobago. For a more detailed list, consult IRS Publication 463.

Thus, the entire cost of transportation and lodging, plus 50% of the meal expenses, is deductible for meetings held within the North American area.

Meetings Outside the North American Area – Deducting travel expenses for a convention or meeting outside the North American area has requirements:

- The meeting must be *directly related to* the taxpayer's trade or business (whereas meetings within the North American area need only *benefit* the taxpayer's trade or business), and
- It must be reasonable to hold the meeting outside the North American area. There is no specific definition of "reasonable" for this purpose, which places the burden of proof on the taxpayer. Considerations include the meeting's purpose and activities and the location of the meeting sponsors' homes.

Even if the above requirements are met, the amount of deduction allowed depends upon the primary purpose of the trip and on the time spent on nonbusiness activities:

(1) If the entire time is devoted to business, all ordinary and necessary travel expenses are deductible.

(2) If the travel is primarily for vacation and only a few hours are spent attending professional seminars, none of the expenses incurred in traveling to and from the business location are deductible.

(3) If, during a business trip, personal activities take place at, near or beyond the business destination, then the expenses incurred in traveling to and from the business location have to be appropriately allocated between the business and nonbusiness expenses.

(4) If the travel is for a period of one week or less, or if less than 25% of the total time is spent on nonbusiness activities (on a day-by-day basis), then the travel deductions are treated the same as they would be for travel within the North American area.

Meetings Held On Cruise Ships – When a convention or meeting is held on a cruise ship and is *directly related to* a taxpayer's trade or business, the taxpayer is limited to $2,000 per year in deductions for expenses from attending such conventions, seminars, or similar meetings. All ships that sail are considered cruise ships. The following rules also apply:

- The cruise ship must be registered in the United States.
- All of the cruise ship's ports of call must be in the United States or its possessions.

If you have questions related to the deductibility of expenses from conventions and meetings or from foreign travel, please give this office a call.

Deducting Convention Expenses

Article Highlights:

- Trade or Business Requirement
- North American Area Travel
- Travel Outside the North American Area
- Expense Limitations Outside of the North American Area
- Cruise Ships

Generally, an individual can deduct travel expenses from attending conventions, seminars or similar types of meetings within the North American area, provided that attendance benefits the taxpayer's trade or business. However, family members' travel expenses are not deductible, and neither are expenses from attending investment, political, social or other types of meetings not related to the taxpayer's trade or business.

The North American area includes the United States, U.S. possessions, Canada, Mexico, Bermuda, Barbados, Costa Rica, Dominica, the Dominican Republic, Grenada, Guyana, Honduras, Jamaica, Saint Lucia, and Trinidad and Tobago. For a more detailed list, consult IRS Publication 463.

Thus, the entire cost of transportation and lodging, plus 50% of the meal expenses, is deductible for meetings held within the North American area.

Meetings Outside the North American Area – Deducting travel expenses for a convention or meeting outside the North American area has requirements:

- The meeting must be *directly related to* the taxpayer's trade or business (whereas meetings within the North American area need only *benefit* the taxpayer's trade or business), and

- It must be reasonable to hold the meeting outside the North American area. There is no specific definition of "reasonable" for this purpose, which places the burden of proof on the taxpayer. Considerations include the meeting's purpose and activities and the location of the meeting sponsors' homes.

Even if the above requirements are met, the amount of deduction allowed depends upon the primary purpose of the trip and on the time spent on nonbusiness activities:

(1) If the entire time is devoted to business, all ordinary and necessary travel expenses are deductible.

(2) If the travel is primarily for vacation and only a few hours are spent attending professional seminars, none of the expenses incurred in traveling to and from the business location are deductible.

(3) If, during a business trip, personal activities take place at, near or beyond the business destination, then the expenses incurred in traveling to and from the business location have to be appropriately allocated between the business and nonbusiness expenses.

(4) If the travel is for a period of one week or less, or if less than 25% of the total time is spent on nonbusiness activities (on a day-by-day basis), then the travel deductions are treated the same as they would be for travel within the North American area.

Meetings Held On Cruise Ships – When a convention or meeting is held on a cruise ship and is *directly related to* a taxpayer's trade or business, the taxpayer is limited to $2,000 per year in deductions for expenses from attending such conventions, seminars, or similar meetings. All ships that sail are considered cruise ships. The following rules also apply:

- The cruise ship must be registered in the United States.
- All of the cruise ship's ports of call must be in the United States or its possessions.

If you have questions related to the deductibility of expenses from conventions and meetings or from foreign travel, please give this office a call.

QuickBooks Tip: Receiving Customer Payments

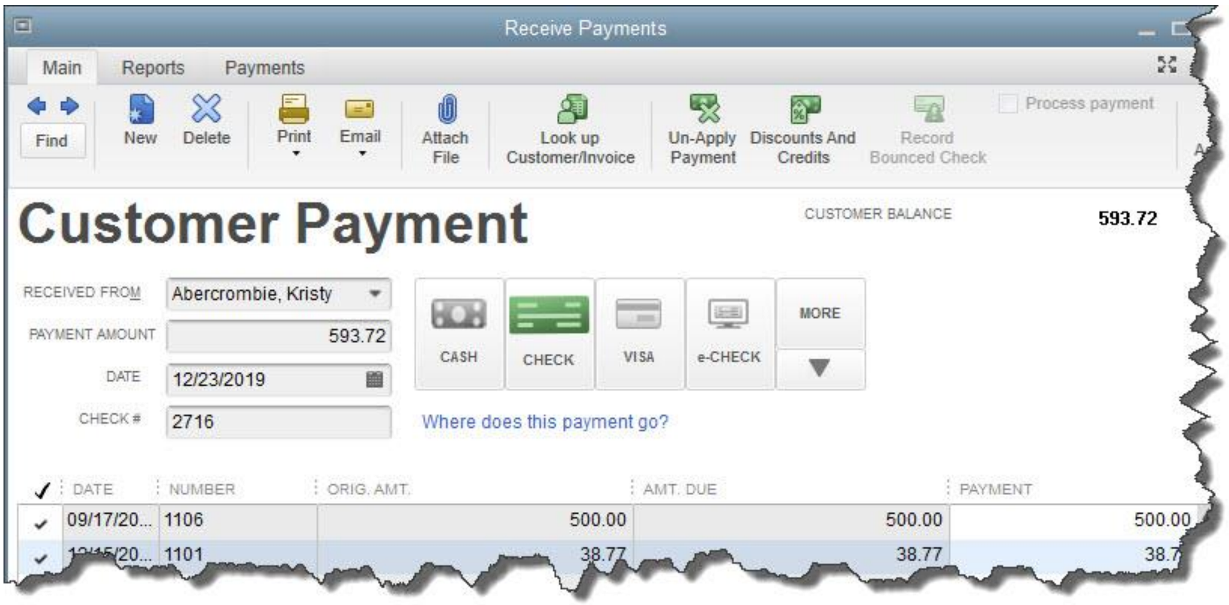
It's one of your more pleasant tasks as a QuickBooks user: receiving payments from customers. Here's how it works.

QuickBooks was designed to make your daily accounting tasks easier, faster, and more accurate. If you've been using the software for a while, you've probably found that to be true. Some chores, of course, aren't so enjoyable. Like paying bills. Reconciling your bank account. Or anything else that has the potential to reduce the balance in your checking accounts.

The process of receiving customer payments is one of your more enjoyable responsibilities. You supplied a product or service that someone liked and purchased, and you're getting the money due you.

Depending on the situation, you'll use one of multiple methods to record customer payments. Here's a look at some of your options.

A Familiar Screen
If you're like many businesses, you send invoices to customers to let them know what they owe and when their payment is due. So one of the most commonly used ways to record payments is by using the **Receive Payments** window. To open it, click the **Receive Payments** icon on the home page or click **Customers | Receive Payments**.



*You'll use QuickBooks' **Receive Payments** screen when you record a payment made in response to an invoice.*

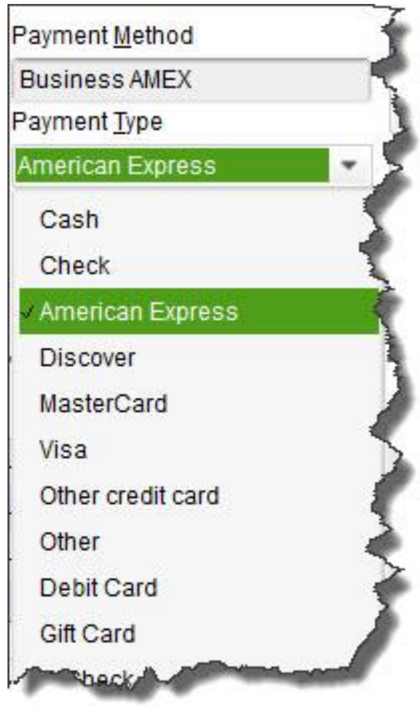
The first thing you'll do, of course, is choose the correct customer by clicking the down arrow in the field to the right of **RECEIVED FROM**. The outstanding balance from that customer will appear in the upper right corner, and invoice information will be displayed in the table below. Enter the **PAYMENT AMOUNT** and make sure the **DATE** is correct. (The next field, **REFERENCE #**, changes to **CHECK #** only if the **CHECK** option is selected.)

Next, you'll need to ensure that the payment is applied to the right invoices. If it covers the whole amount due, there will be a checkmark in every row in the first column of the table. If not, QuickBooks will use the money received to pay off the oldest invoices first. To change this, click **Un-Apply Payment** in the icon bar and click in front of the correct rows to create checkmarks.

Several Options
You'll then want to tell QuickBooks what payment method the customer is using. Four options are displayed. The possibilities that are visible here are:

- **CASH**
- **CHECK**
- **CREDIT DEBIT** (A specific card type may be shown here if you've indicated the customer's preferred payment method in his or her record.)
- **e-CHECK**

If the desired payment method isn't included in those four, click the down arrow under **MORE**. If it's still not there, click **Add New Payment Method**. This window will open:

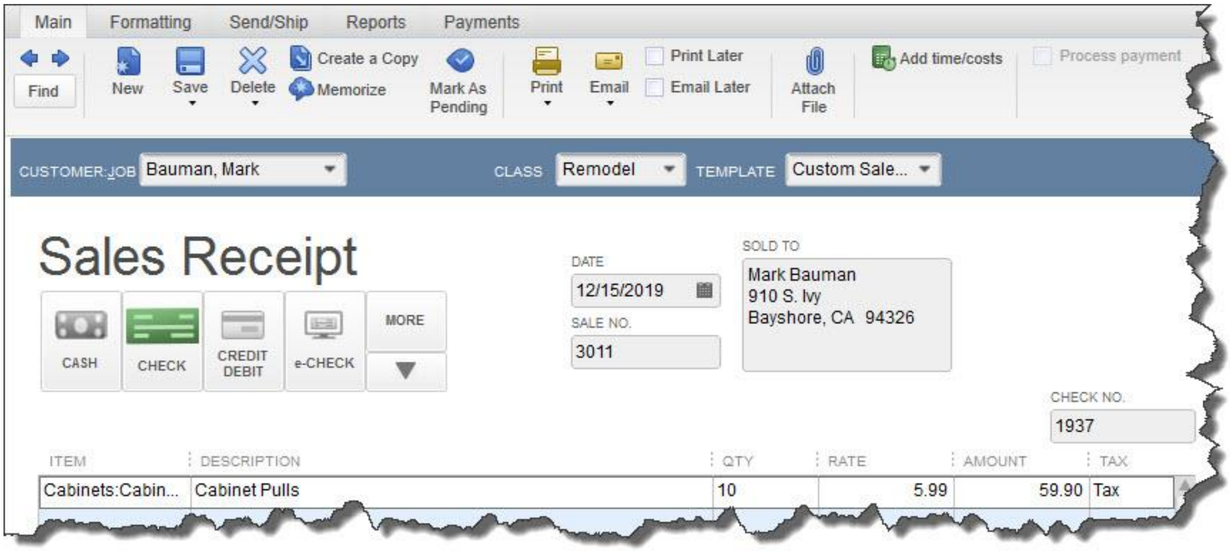


*The **New Payment Method** window*

Click **OK.** When you choose your new payment method from the list, a window opens containing fields for the card number and expiration date. Click **Done** after you've entered it, and you'll be returned to the **Receive Payments** screen. If you're satisfied with your work there, click **Save & Close** or **Save & New**.

Haven't gotten set up to accept credit and debit cards yet? We can get you going with a merchant account to make this possible. You're likely to find that some customers pay faster with this option. Your customers will be able to click a link in an emailed invoice and make their payments.

Instant Sales
Depending on the type of business you have and its physical location, there may be times when customers will come in and buy something on the spot. You'll need to give them a **Sales Receipt**. Click **Create Sales Receipts** on the home page or open the **Customers** menu and select **Enter Sales Receipts** to open this window:



*The **Enter Sales Receipts** window*

You'll complete this form much like you entered data in the fields of the **Receive Payments** window. As you can see, you can print the mail for the customer and/or email it.

After all the hard work you've done to make your sales, the last thing you want to do is record a payment incorrectly so it isn't processed and you don't get paid. Though QuickBooks makes the mechanics of receiving payments simple enough, you still should understand the entire process involved in getting income into the correct accounts. We're available to help with this and any other areas of QuickBooks.