BARRY & MOORE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

2017 Tax Information Guide & 2018 Tax Reform Update

Table of Contents

1 **Tax Rates & Brackets**
Schedules and more to answer your basic questions

2 **Annual Limits, Standard Rates & Deductions**
Retirement Contribution Limits, Standard Deduction and other Annual Limits

3 **Arizona Charitable Contribution Tax Credits**
Provide support and save taxes

5 **2018 Tax Reform Update For Individuals**
Important planning information for Individuals in 2018 and beyond

7 **2018 Tax Reform Update For Businesses**
Important planning information for Businesses in 2018 and beyond

9 **2018 Tax Reform Update - Miscellaneous Provisions**
Tax information to help you create and preserve your wealth

The material in this guide is for informational purposes only. This information should not be construed as legal, accounting, or other professional advice provided by Barry & Moore, P.C. This guide should not be substituted for professional services. Consult your tax advisor concerning the application of this information to your specific circumstances.

Tax Rates & Brackets

Schedules and more to answer your basic questions

2017 Individual Regular Tax Brackets

Married Filing Joint & Surviving Spouses

Taxable Income:	Calculated Tax is:
Not over $18,650	10% of the taxable income
$18,650 - $75,900	$1,865 plus 15% of the excess over $18,650
$75,900 - $153,100	$10,453 plus 25% of the excess over $75,900
$153,100 - $233,350	$29,752 plus 28% of the excess over $153,100
$233,350 - $416,700	$52,223 plus 33% of the excess over $233,350
$416,700 - $470,700	$112,728 plus 35% of the excess over $416,700
Over $470,700	$131,628 plus 39.6% of the excess over $470,700

Head of Household

Taxable Income:	Calculated Tax is:
Not over $13,350	10% of the taxable income
$13,350 - $50,800	$1,335 plus 15% of the excess over $13,350
$50,800 - $131,200	$6,953 plus 25% of the excess over $50,800
$131,200 - $212,500	$27,053 plus 28% of the excess over $131,200
$212,500 - $416,700	$49,817 plus 33% of the excess over $212,500
$416,700 - $444,550	$117,203 plus 35% of the excess over $416,700
Over $444,550	$126,950 plus 39.6% of the excess over $444,550

Single (Unmarried Individuals)

Taxable Income:	Calculated Tax is:
Not over $9,325	10% of the taxable income
$9,325 - $37,950	$933 plus 15% of the excess over $9,325
$37,950 - $91,900	$5,226 plus 25% of the excess over $37,950
$91,900 - $191,650	$18,714 plus 28% of the excess over $91,900
$191,650 - $416,700	$46,644 plus 33% of the excess over $191,650
$416,700 - $418,400	$120,910 plus 35% of the excess over $416,700
Over $418,400	$121,505 plus 39.6% of the excess over $418,400

Married Filing Separately

Taxable Income:	Calculated Tax is:
Not over $9,325	10% of the taxable income
$9,325 - $37,950	$933 plus 15% of the excess over $9,325
$37,950 - $76,550	$5,226 plus 25% of the excess over $37,950
$76,550 - $116,675	$14,876 plus 28% of the excess over $76,550
$116,675 - $208,350	$26,111 plus 33% of the excess over $116,675
$208,350 - $235,350	$56,364 plus 35% of the excess over $208,350
Over $235,350	$65,814 plus 39.6% of the excess over $235,350

Wealth Transfer Taxes

Year	Gift & Estate Tax Exemption
2017	$5,490,000
2018	$10,980,000*

Expected Gift and Estate tax rate through 2017: 40%

2017 Individual AMT Brackets

Tax Rate	Tax Brackets
26%	$0 - $187,800
28%	Over $187,800

The AMT tax bracket for Married Filing Separately is 1/2 of the amounts for Single, Married Filing Jointly, and Head of Household filers.

2017 Corporate Tax Brackets

Tax Rate	Tax Bracket
15%	$0 - $50,000
25%	$50,001 - $75,000
34%	$75,001 - $100,000
39%	$100,001 - $335,000
34%	$335,001 - $10,000,000
35%	$10,000,001 - $15,000,000
38%	$15,000,001 - $18,333,333
35%	Over $18,333,333

* The 2018 estate tax exemption is expected to double as part of the passage of the 2017 Tax Cuts and Jobs Act

Please note that the tax rates outlined above and the annual limits on the next page are the currently scheduled rates and limits and are subject to change.

Annual Limits, Standard Rates & Deductions

	2017	2018*
Personal Exemption Per Person	$4,050	$0
Standard Deduction:		
Single	$6,350	$12,000
Married Filing Separately	$6,350	$12,000
Head of Household	$9,350	$18,000
Married Filing Jointly	$12,700	$24,000
Maximum Retirement Plan Contributions:		
Traditional or Roth IRA	$5,500	$5,500
Traditional or Roth IRA, if 50 or older	$6,500	$6,500
SIMPLE IRA	$12,500	$12,500
SIMPLE IRA if 50 or older	$15,500	$15,500
401(k), 403(b) or 457	$18,000	$18,500
401(k), 403(b) or 457 if 50 or older	$24,000	$24,500
Defined Contribution Plan or SEP IRA	$54,000	$55,000
Defined Benefit Plan	$215,000	$220,000
Standard Mileage Rates:		
Business	53.5 cents	54.5 cents
Depreciation	25.0 cents	25.0 cents
Medical/Moving	17.0 cents	18.0 cents
Charitable	14.0 cents	14.0 cents
Foreign Earned Income Exclusion	$102,100	$104,100

Social Security tax rate is 6.2% (12.4% self employed rate) on wages up to $127,200 for 2017 and $128,400 for 2018.

Medicare tax rate is 1.45% (2.9% self employed rate) with no wage limit for 2017 or 2018.

Net Investment Income Tax rate is 3.8% on net investment income of higher income individuals for 2017

Medicare Surtax rate is 0.9% on earned income of higher income individuals for 2017

***2018 Tax Reform** standard deduction is essentially doubled for all filing types and personal and dependent exemptions are repealed. Expected to sunset after 2025.

Arizona Charitable Contribution Tax Credits

With the clock ticking over to 2018, it is now too late to make a charitable contribution donation and get a 2017 federal Schedule A deduction, **but you can still potentially reduce your 2017 state taxes** and direct where some or of your money goes by contributing to one of the organization types listed in the table below.

Arizona Tax Credit Basics

If you haven't already donated in 2017 to an Arizona Credit Organization or if you donated in 2017 for a credit in 2016 you can still donate to any of these organization types up through April 17, 2018 to get a credit on your 2017 Arizona state tax filing. Each $1 donated lowers your Arizona tax by $1 (subject to certain limits) and potentially provides a charitable contribution deduction as well (a contribution made in 2018 for state credit in 2017 would be deductible for federal tax purposes on your 2018 federal Schedule A, for filers who itemize).

Below is a list of the organization types and the **maximum credit limits** for each of the available Arizona tax credits based on filing status:

Organization Types and Limits

Organization Type	Single[3]	Married Filing Jointly
Public School Tax Credit	$200	$400
Qualifying Charitable Organization	$400	$800
Qualifying Foster Care Organization	$500	$1,000
Private School Tuition Tax Credit	$546	$1,092
Private School Tuition - Plus Tax Credit	$543	$1,085
Military Family Relief Fund[1]	$200	$400
Maximum Potential AZ Tax Credits[2]	**$2,389**	**$4,777**

1. Arizona allows only $1,000,000 in contributions each year to qualify for this credit. If the $1M limit has been reached your donation for the tax credit will be returned. This credit is set to expire in 2018.
2. To get the maximum potential benefit in 2017 you must have an Arizona tax liability of at least the amount you are donating, up to the maximum potential benefit detailed in the table above. Unused credit amounts can be carried forward for 5 years.
3. This is also the maximum credit amount for Head of Household and Married filing separately filers.

For a list of qualifying charities, please visit our website for links to the Arizona Department of Revenue.

2018 Tax Reform Update

2018 Tax Cuts & Jobs Act - While there were no significant legislative changes to the 2017 tax year, there will be dramatic changes for 2018 and future years. On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act ("TCJA"), which has approximately $1.5 Trillion of tax cuts that will be in effect over the next eight to ten years.

The TCJA, as approved by Congress, impacts virtually every individual and business on a level not seen in over 30 years. As with any tax bill, however, there will be "winners" and "losers". This historic bill calls for lowering the individual and corporate rates, repealing countless tax credits and deductions, enhancing the child tax credit, boosting expensing and much more. Most of these provisions are effective starting in the 2018 tax year.

While there are many changes in the tax law related to the passage of this bill, **all** of the changes impacting Individual taxes are temporary and are expected to sunset by 2025, unless future legislatures extend these provisions or make them permanent. On the contrary, most of the business related provisions are permanent and will not need to be extended or changed by future legislatures to remain in effect.

Also, the TCJA impacts the Affordable Care Act, effectively repealing the individual shared responsibility requirement for health insurance ("individual mandate" - otherwise known as requirement to have health insurance), effective for the 2019 year and forward. The repeal of the individual mandate is permanently enacted and will be in place until future legislatures change the laws related to health care.

In the following pages we will discuss the positive and negative impacts of many of the changes included in this law for Individuals and Businesses. Additionally, we will discuss any other miscellaneous items that may be applicable to special situations that don't really fit into one category or the other.

Included in the law were a number of International Provisions. While these provisions will be mentioned in brief in the Tax Reform Update Miscellaneous section, most of these provisions are not applicable to the average taxpayer and detailed discussion of these provisions is beyond the scope of this update.

As this law has just been passed, the effects of it really won't be known until much later in 2018 and more so into 2019 and beyond, we will be here to update you throughout the year and in late 2018 we will send out updated information as part of Year-End Tax Guide. Please do not hesitate to contact us if you have any questions regarding the information in this guide or the new tax law and its impacts on your specific situation in 2018 and beyond.

You can review the text of the law itself as well as the conference committee reports at the links below. Also, as the Internal Revenue Service starts to implement these law changes they will update information at their website which is also linked below:

- https://www.congress.gov/bill/115th-congress/house-bill/1
- http://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-466.pdf
- https://www.irs.gov/

2018 Tax Reform For Individuals

Positive Impact

- Lower overall tax rates and wider tax brackets,
- Increased standard deduction,
- Increased child credit availability and phase out limitations,
- Lower corporate tax rates,
- Repeal of the overall 3% itemized deduction limitation,
- Increase in the charitable contribution AGI limitation to 60%,
- Qualified Business Income Deduction,
- 529 Plan distributions allowed for elementary, secondary and homeschooling,
- Increased Section 179 expensing and increased Bonus Depreciation,
- Estate tax exemption doubles from $5M to $10M, indexed for inflation from 2011,
- Alternative Minimum Tax - increased exemption and phase-out limitation.

Negative Impact

- Reduced overall itemized deduction for taxes to $10,000,
- Repeal of deduction for 2% itemized deductions (i.e. tax prep fees)
- Repeal of personal and dependent exemptions
- Repeal of deduction for Alimony payments,
- Denial of charitable deduction for college athletic event seating rights,
- Home acquisition indebtedness limited to $750,000 of debt, grandfathered debt is still subject to old limitation,
- Repeal of interest deduction for home equity debt, no grandfathering on existing home equity debt
- Casualty losses only deductible if attributed to federally declared disaster,
- No deduction for moving expenses
- Business "Entertainment" deductions disallowed. No longer eligible for 50% deduction as part of M&E,
- Limitations on deductibility of Business Interest.
- Repeal of Domestic Production Activities Deduction

Fraud, Tax Scams & Data Security

We all have a role to play in protecting your data

If it sounds too good to be true, it probably is! In recent years, thousands of people have lost millions of dollars and their personal information to tax scams and fake IRS communications. We want you to be aware of the most common scams affecting you, your business and even tax professionals so we can all work together to **protect your financial assets and data!**

In 2015 the IRS released their "Dirty Dozen" list of tax scams. While they haven't updated the list for 2016 yet it is important to note that many of these scams are still prevalent today. Some of the more important ones are highlighted below:

- **Phone Scams:** Aggressive and threatening phone calls by criminals impersonating IRS agents remains an ongoing threat to taxpayers. The IRS has seen a surge of these phone scams, as scam artists threaten police arrest, deportation, license revocation and other things. **The IRS will never call to demand immediate payment using specific payment methods such as prepaid debit cards, ask for credit or debit card numbers over the phone or threaten to bring in law-enforcement to have you arrested or tell you that the police are "on their way".**

- **Phishing and Malware:** Taxpayers need to be on guard against fake emails or websites looking to steal personal information. The IRS will not send you an email about a bill or refund out of the blue. Don't click on one claiming to be from the IRS that takes you by surprise, as this is likely a scam to steal your personal information. **During 2016, the IRS identified a 400 percent increase in phishing and malware incidents. Be aware that the IRS does not initiate contact with taxpayers by email, text messages or social media.**

Tax Fraud Security and Data Protection

- **Identity Theft:** Taxpayers need to watch out for identity theft especially around tax time. The IRS continues to aggressively pursue the criminals that file fraudulent returns using someone else's Social Security number, but this is still an on ongoing problem and taxpayers need to be extremely careful with their personally identifying information. **If a fraudulent return is filed in your name, it will delay any refund you expect to receive as well create additional required filings with the IRS identity theft unit to verify that you are the true and correct taxpayer. Identity theft doesn't just affect you the first year it happens as additional security measures are required in future years to ensure proper secure filing.**

You can review additional information released by the IRS related to the "Dirty Dozen" and all of the current most common tax scams at IRS.gov and the specific websites listed below.

- https://www.irs.gov/uac/newsroom/irs-completes-the-dirty-dozen-tax-scams-for-2015
- https://www.irs.gov/uac/tax-scams-consumer-alerts
- https://www.irs.gov/individuals/taxes-security-together
- https://www.irs.gov/uac/irs-security-awareness-tax-tips

Any communication you receive from the IRS or someone purporting to be from the IRS should be communicated to us immediately so we can investigate and determine the best course of action to protect your financial assets and data!

Investing

Help in making tax-smart investment decisions

Attention to Detail

The tax treatment of investments varies dramatically based on several factors, including the type of investment, the nature of income it produces, how long it has been held, and if any special limitations or tax breaks apply. If you don't pay attention to the details, the tax consequences of an investment may be different than you expect. So before you make any investment decisions, consider the potential tax consequences under the different possible scenarios.

Investment Taxes

The top tax rate, for 2016, on income from qualified dividends and long-term capital gains is unchanged. The top rate on income from both sources increases from 15% to 20% for unmarried taxpayers with taxable income over $415,050 and married taxpayers with taxable income over $466,950. For taxpayers with taxable income below these thresholds, the 15% rate for both long-term capital gains and qualified dividends remains in place. Additionally, investment income is potentially subject to the 3.8% Net Investment Income Tax, depending on whether you meet certain income thresholds (see 3.8% Net Investment Income Tax below).

3.8% Net Investment Income Tax

Continuing in 2016, a surtax of 3.8% is imposed on net investment income, which includes all "unearned" income, such as income from interest, dividends, capital gains (including otherwise taxable gain on the sale of a personal residence), annuities, royalties, rents, and passive activity investments. The tax is applied against the lesser of the taxpayer's net investment income or modified AGI in excess of the thresholds. These thresholds are set at $200,000 for singles and $250,000 for joint filers; these thresholds are not indexed for inflation. Income not subject to this tax includes distributions from qualified plans, income derived in the ordinary course of a trade or business that is not treated as a passive activity, and tax exempt income from municipal bonds. It is also important to note that taxpayers subject to an AMT liability would be liable for any 3.8% Net Investment Income Tax in addition to the AMT liability.

2017 Outlook/ Planning

Within the framework of President-Elect Trump's tax and healthcare proposals, it makes sense to hold onto any unrealized capital gains until 2017 or later unless you have losses to absorb them. While the tax rate for capital gains is likely to remain unchanged, the 3.8% NIIT is expected to be repealed as part of legislation to repeal and replace the PPACA (Obamacare). The repeal of this tax would reduce the tax cost related to recognition of these unrealized gains in 2017 and future years.

The 0% Rate

Taxpayers in the 10% or 15% tax brackets qualify for the 0% tax rate on long-term capital gains and qualified dividends. For example, a married filing jointly couple can have up to $75,300 of taxable income ($37,650 for single taxpayers) and still qualify for the 0% rate. Factoring in the standard deduction and personal exemptions allows a married filing jointly couple to have $96,000 of adjusted gross income ($48,000 for single taxpayers) and still qualify for the 0% rate.

Principal Residence

The gain on sale of a principal residence may be subject to capital gains tax if the residence was used as other than a principal residence after 2008, even when the total gain doesn't exceed the normal home sale exclusions.

Businesses

Important information for those with business ownership interests

Losses/ Built-in Gains

Insufficient tax basis limits the amount of losses you are allowed to use to offset other income, which could potentially increase your tax liability. So it may be wise to review your partnership and S-Corporation investments for the need to increase your tax basis prior to year end. You may also want to consider disposing of passive investments to free up current year or prior year suspended losses from those investments. Suspended losses may arise from passive losses, such as those derived from rental real estate or businesses you are not actively involved in, since these types of losses usually can only be deducted against passive income. The ten-year waiting period (recognition period) for an S-Corporation to avoid the built-in gains tax was permanently set at five years starting in 2015.

Employee Health Reimbursement Plans

For non shareholder-employees and shareholder-employees that own less than 2%, reimbursements for accident and health insurance premiums for "more than one employee" are no longer allowed under the PPACA as these reimbursements would constitute a "group plan" which would not meet the "market reform" requirements of PPACA. The violation of these market reform requirements could subject the business to a $100 per day, per employee penalty (potentially, $36,500 per employee).

2017 Outlook/ Planning

Notice 2015-17 provided transition relief for the penalties indicated above so the penalties will not be enforced in 2016 as no new guidance has been issued. Additionally, reimbursement plans for "more than one employee" may come back into play in 2017 as part of President-Elect Trump's plan to repeal and replace Obamacare. While this topic hasn't specifically been addressed as part of his overall healthcare plan, it is likely that Trump will attempt to simplify or even eliminate the requirements to have health insurance, which would have a significant impact on what health insurance is required to offer. While many businesses have started group plans to satisfy the market requirements, we may see a shift back to health insurance reimbursement plans that were in place before the PPACA was enacted in 2012.

Shareholder/ Partner Insurance

The enactment of the 2012 PPACA created confusion as to an S-Corporation's ability to deduct medical insurance premiums paid directly to or reimbursed to more than 2% shareholder-employees that are not using an employer sponsored group plan.

Notice 2015-17 also clarified that S Corporations may continue to report reimbursements of health insurance of 2% shareholders-employees pursuant to Notice 2008-1. Until further guidance is issued and in any event through the end of 2016, the excise tax indicated above will not be asserted for any failure to satisfy the market reforms by a 2% shareholder-employee healthcare arrangement.

No further guidance has been issued in relation to this type of arrangement and as it is likely that healthcare legislation will change for 2017 and beyond and we do not expect any future guidance on this issue as it relates to the PPACA and the market reforms.

Businesses

(Continued)

Shareholder Salaries

Salaries for shareholders active in S-Corporations remain a hot issue for the IRS. Currently, S-Corporations have an advantage over all other types of business entities in that only salaries are subject to Social Security and Medicare taxes (15.3% of the first $118,500 of salaries for 2016, the limit rises to $127,200 for 2017), whereas the distribution of profits to the shareholders are not subject to these taxes. Active shareholders should receive a "reasonable" salary. Whether a shareholder-employee's compensation is "reasonable" depends on the facts and circumstances of each case. Some of the factors the IRS will consider include: (1) whether the salary is unusually higher or lower than those ordinarily paid for similar services; (2) whether the salary is reasonable in relation to the services rendered to the S-Corporation; (3) comparison of the salary with the gross and net income of the S-Corporation; and (4) whether the salary of the shareholder-employee corresponds or bears a close relationship to the stock ownership of such employee. The IRS continues to audit returns based on this issue and reclassify distributions as salaries subject to employment taxes. Please call if you have any questions or concerns related to this matter.

Succession Planning

Family businesses tend to be closely held, with the presiding family having the greatest investment in and control over the enterprise. However, there can be many other interested parties as well, including employees, customers and suppliers, to name just a few. To those parties, it matters who will own and run the business in the future. Lack of information about this can signal uncertainty, with potentially adverse effects on both the near-term and long-term health of the company. On the other hand, a clearly communicated succession plan can help assure stakeholders that the business is here to stay. This planning should be done well in advance of your anticipated transition and should be flexible enough to adjust course as circumstances change.

Sec 179 Limitations

At the end of 2015 the business property expensing election under Code Section 179 limits were permanently adjusted. The section 179 limitation for 2016 and future years is $500,000, which begins to phase out when acquisitions for the year exceed $2,000,000. This expensing election can be made for both new and used property to the extent of net taxable income.

Additionally, the $25,000 Section 179 expensing limit on **SUV's** that are used more than 50% in your business is still in place for 2016 and future years. SUV's that have a GVWR of 6,000 lbs or more may qualify for this election. If you aren't certain which vehicles qualify, please contact us before you make your purchase. The difference between a vehicle that qualifies for this election and one that doesn't is substantial.

Bonus Depreciation

Bonus depreciation continues in 2016 and 2017 at 50% of the cost of eligible property. The property's original use must begin with the taxpayer (cannot be used) and must have a tax recovery period of 20 years or less. Under current law bonus depreciation is set to phase out to 40% in 2018 and 30% in 2019. There is no current or expected legislation that will extend bonus beyond 2019.

Charitable Giving

(continued)

Non-Cash

Get all unwanted household goods to a charity before the end of the year. Keep in mind that these non-cash donations must be in good used condition or better to claim a deduction. You are responsible for keeping track of what was given and determining the value. Substantiation requirements vary depending on the value assigned to the property being donated. Please call us for specifics if you are donating property valued at $250 or more. All donations will require the name of the organization, the date and location of donation, a reasonably detailed description of the donated property, the fair market value and the method of valuing the property.

Charitable Expenses & Transportation

If you are using your car for a qualified charitable purpose you can deduct the vehicle expenses as a charitable contribution. This is usually done through the charitable mileage rate, but you can use actual expenses if they provide a greater benefit. Also, unreimbursed expenses incurred as a volunteer for a qualified charitable organization are tax deductible. However, you may not deduct the value of your time or donated professional services.

Property

Consider donating appreciated property to charity. Doing so avoids the capital gains tax you would incur if you sold the property. However, do not donate depreciated property that may qualify for a loss on your personal tax return. Instead, sell the property and give the proceeds to charity. Then you can take the capital loss and the charitable contribution deduction.

2017 Outlook/ Planning

President-Elect Trump's revised proposal released in September of 2016 calls for capping itemized deductions at $200,000 for MFJ filers and $100,000 for single filers. While it is unclear if this hard cap will actually be enacted, any large charitable contributions, planned or considered, should be completed before the end of 2016, if possible. Additionally, if you are in a tax bracket in 2016 that is higher than the proposed 33% tax bracket for 2017, you will receive a greater tax benefit from a charitable contribution in 2016 than waiting until tax rates go down in 2017 and beyond.

While we don't know yet what will be enacted, President-Elect Trump's proposal is not currently in line with Congressional Republicans who want to limit itemized deductions while keeping the mortgage interest and charitable contribution deduction unchanged. So it's certainly possible that waiting until 2017 to make a substantial charitable contribution may end up being no different than if it had been made before the end of 2016, but there is a risk of increased tax cost in waiting.

Retirement

Tax information to help you create and preserve your wealth

Roth IRA Conversion

If you believe a Roth IRA is better than a traditional IRA and intend to remain in the market for the long-term, consider converting some traditional IRA funds into a Roth IRA. Conversions will automatically be included in income in the year of conversion. In deciding whether or not a conversion is an effective tax planning strategy for your specific situation, it is important to consider a number of relevant variables, such as your age, your current and expected future tax brackets, and whether you can afford to pay the tax on the conversion. Generally, Roth conversions are most worthwhile when you are in the lowest or lower tax brackets.

Additionally, taxpayers may convert any portion of their balance in an employer-sponsored 401(k) account into a Roth 401(k) under that plan, provided that the employer sponsored plan has this feature. If you are an upper-income taxpayer with modified AGI of at least $200,000 (Single) or $250,000 (MFJ), converting to a Roth IRA could trigger the 3.8% surtax on unearned income. Withdrawals from an IRA are not subject to the surtax, but they are included in AGI and could push your adjusted gross income above the threshold.

IRA Contributions for High Income Individuals

Now that the AGI limit for Roth conversions has been eliminated, the opportunity exists for additional taxpayers with income too high to make a Roth IRA contribution to make a nondeductible traditional IRA contribution in one year (i.e., 2016), then convert the traditional IRA to a Roth IRA in the next year (i.e., 2017). It is important to note, though, that the IRS does not allow taxpayers who convert to specify which dollars are being converted. The IRS considers a taxpayer's non-Roth IRA money to be a single, comingled sum. So if you have other untaxed money in traditional IRA accounts, please consult a Barry & Moore tax professional before converting to a Roth IRA, as you will likely end up with an unintended tax burden from this type of conversion.

Required Minimum Distributions

Once you reach age 70 ½, you must take annual required minimum distributions from defined contribution plans and IRA accounts. If you fail to comply, you could owe a penalty equal to 50% of the amount you should have withdrawn. Usually, your broker will advise you as to the required minimum distribution amount. If not, please be sure to call us and we will compute the amount for you. Also, call us to discuss when it makes sense to take distributions between ages 59 ½ and 70 ½.

Retirement for Business Owners

If most of your money is tied up in your business, retirement can be a challenge. So if you do not already have a tax-advantaged retirement plan set up, consider setting one up this year. You have many options such as 401(k), 403(b), 457, Traditional IRA, Roth IRA, SIMPLE IRA, SEP IRA and Defined Benefit and Cash Balance plans. The higher your age, the higher your potential contribution, for Defined Benefit or Cash Balance plans and in some cases your contribution can exceed your salary. See page 14 for the maximum contributions limits for each different type of plan.

Catch-Up Contributions

Many retirement accounts allow for extra "catch-up" contributions if you are age 50 or over. There are many aspects to consider when determining how much you should be contributing to your retirement and which type of account is best to use. Please contact us to discuss which option is best for you. See page 14 for contribution limits for persons age 50 or over.

Avoid Penalties

Most withdrawals from retirement plans before age 59½ will incur a 10% penalty. However, there are a few exceptions. Make sure you fully understand the tax consequences of any early withdrawals beforehand. To avoid penalties when you change jobs, make sure you either keep your funds in your old employer's plan, roll them over into your new employer's plan or roll them over into an IRA .

Family & Education

Ways to minimize your taxes while maximizing your family's benefit

Kiddie Tax

A child is subject to the "kiddie tax" if the child does not file a joint return for the tax year and (1) the child hasn't reached age 18 before the close of the tax year or (2) the child's earned income doesn't exceed one-half of his or her support and the child is age 18 or is a full time student age 19-23. If you think this may affect you, be sure to talk with us about how to best transfer your investments to your children without surpassing the $2,100 unearned income limit for 2016 and 2017, which is where the "kiddie tax" kicks in.

Child and Dependent Care Expenses

If you paid someone to care for your child or other qualifying person so you (and your spouse if filing jointly) could work or look for work, you may be able to take the credit for child and dependent care expenses. Qualifying expenses are amounts paid for household services and/or care of the qualifying person, they do not include child support payments, alimony or any payments that will be reimbursed by a state social service agency. The total amount of qualifying expenses you can claim is $3,000 per child up to a maximum of $6,000 for 2 or more children. The tax credit phases out from 35% to 20% from $15,000 of AGI to $43,000 of AGI. Above $43,000 of AGI the credit is 20% of your qualifying expenses up to the $6,000 limit (potential $1,200 tax credit).

2017 Outlook/ Planning

President-Elect Trump has proposed six weeks of paid maternity leave for new mothers who do not have it offered at their current employer. There is no mention of paternity leave in the proposal and it excludes fathers in all respects, including single and gay fathers who have recently adopted as well as same sex women who aren't carrying the child.

He has also proposed a deduction for the average cost of child care or elder care based on the taxpayers state of residence. The deduction for child/elder care will be available to taxpayers that take the standard deduction as well as those who itemize. The plan will provide the same tax deduction for stay at home parents as for working parents, offering them compensation for the job they are already doing. Additionally, he has proposed Dependent Care Savings Accounts so families can set aside extra money for child/elder care. These accounts would be pre-tax or tax deductible when funded and would be allowed to accumulate and grow tax-free.

With all of these proposals aimed at deductions instead of tax credits, it is unknown at this time if the dependent care credit and the earned income credit would be changed or eliminated as part of the proposed legislation. This proposal, in some respects, appears to be a step away from the conservative tradition of limited government involvement in social services. Therefore, it is likely that he will receive some push back from Congressional Republicans who would prefer to not have the government involved in child care or paternity leave decisions or who are not certain that the cost of the proposal can be funded through growth or other comprehensive reform savings.

529 College Savings Plan

The Arizona deduction for contributions made to a qualifying 529 College Savings Plan, which was scheduled to expire at the end of 2012, is now permanent. The deduction is limited to $2,000 for single taxpayers and $4,000 for married taxpayers filing a joint return. The IRS limits distributions to "qualified higher education" expenses in order to avoid a 10% penalty on plan earnings.

Direct Payments

Making payments directly to educational institutions or to any person who provides medical care on behalf of your child or grandchild are gift-tax free and will not count against the annual exclusion or lifetime exemption.

Positive Impact

- Lower overall tax rates and wider tax brackets,
- Increased standard deduction,
- Increased child credit availability and phase out limitations,
- Lower corporate tax rates,
- Repeal of the overall 3% itemized deduction limitation,
- Increase in the charitable contribution AGI limitation to 60%,
- Qualified Business Income Deduction,
- 529 Plan distributions allowed for elementary, secondary and homeschooling,
- Increased Section 179 expensing and increased Bonus Depreciation,
- Estate tax exemption doubles from $5M to $10M, indexed for inflation from 2011,
- Alternative Minimum Tax - increased exemption and phase-out limitation.

Negative Impact

- Reduced overall itemized deduction for taxes to $10,000,
- Repeal of deduction for 2% itemized deductions (i.e. tax prep fees)
- Repeal of personal and dependent exemptions
- Repeal of deduction for Alimony payments,
- Denial of charitable deduction for college athletic event seating rights,
- Home acquisition indebtedness limited to $750,000 of debt, grandfathered debt is still subject to old limitation,
- Repeal of interest deduction for home equity debt, no grandfathering on existing home equity debt
- Casualty losses only deductible if attributed to federally declared disaster,
- No deduction for moving expenses
- Business "Entertainment" deductions disallowed. No longer eligible for 50% deduction as part of M&E,
- Limitations on deductibility of Business Interest.
- Repeal of Domestic Production Activities Deduction

Energy Efficiency

When it comes to tax time, it pays to be green

Alternative Energy

The 30% Federal credit for residential energy efficient property, including solar electric, solar hot water, fuel cell, small wind energy, and geothermal heat pumps, is still in effect through 2016. The credits for fuel cells, small-wind and geothermal heat pumps expire at the end of 2016, while the credits for solar property are in place until 2021, with phase out beginning in 2019. The credit applies to new and existing homes and includes the cost of installation. **It is not required that the residence be the individual's principal residence.**

Additionally, these credits are allowed to offset the AMT as well as regular income tax. Please note that solar heat for swimming pools, hot tubs, or any other medium which has a function other than energy storage does not qualify for the credit. A credit may also be available through the Arizona Department of Revenue for "Renewable Energy Production" using a solar, wind, or biomass energy resource. For more information, please call us or visit the Arizona Department of Revenue website at:
www.azdor.gov/TaxCredits/RenewableEnergyProductionTaxCredit.aspx.

Plug-In Electric Vehicles

Internal Revenue Code Section 30D provides a credit for Qualified Plug-in Electric Drive Motor Vehicles including passenger vehicles and light trucks. For vehicles acquired after December 31, 2009, the credit is equal to $2,500, for a vehicle which draws propulsion energy from a battery with at least 4 kilowatt hours of capacity, plus an additional $417 for each kilowatt hour of battery capacity in excess of 4 kilowatt hours. The total amount of the credit allowed for a vehicle is limited to $7,500.

The credit begins to phase out for a manufacturer's vehicles when at least 200,000 qualifying vehicles manufactured by that manufacturer have been sold for use in the United States (determined on a cumulative basis for sales after December 31, 2009). For more information, please call us or visit the IRS website at:
http://www.irs.gov/Businesses/Qualified-Vehicles-Acquired-after-12-31-2009

CERTIFIED PUBLIC ACCOUNTANTS

www.barryandmoore.com

602.277.5463