



COOK MARTIN POULSON, P.C.

Certified Public Accountants



TAX PLANNER 2016

One of the most effective ways Cook Martin Poulson helps you keep what you earn is by minimizing your tax bill. We are your advocate in times of uncertainty and continuous change. We are committed to providing you with the most current and proactive tax services possible.

PROTECTING AMERICANS FROM TAX HIKES (PATH) ACT OF 2015

SUMMARY	2015	2016	2017
Marginal Federal Income Tax Rates (\$400,000 Single and \$450,000 MFJ)*	39.6%	39.6%	39.6%
Tax on dividends if you're below the \$450,000 MFJ bracket*	15.0%	15.0%	15.0%
Tax on dividends if you're in the \$450,000 bracket*	23.8%	23.8%	23.8%
Capital Gain Rates if you're in the 10% and 15% brackets	0.0%	0.0%	0.0%
Capital Gain Rates if you're in the 25%, 28% and 33% brackets	15.0%	15.0%	15.0%
Capital Gain Rates if you're in the 35% bracket	18.8%	18.8%	18.8%
Capital Gain Rates if you're in the 39.6% bracket	23.8%	23.8%	23.8%
Medicare Tax on Net Investment Income Married over \$250,000 AGI	3.8%	3.8%	3.8%
Addtl Medicare Tax on Wages and Self-Employment Income over \$250K	0.9%	0.9%	0.9%
Social Security Payroll Tax	6.2%	6.2%	6.2%
Self-Employment Tax	15.3%	15.3%	15.3%
50% Bonus Depreciation Original Use Business Equipment	YES	YES	YES
IRC Section 179 Expensing Limit	500,000	500,000	500,000
Estate Tax Rates	40%	40%	40%
Estate Exemption	5,430,000*	5,450,000*	5,450,000*
Annual Gifting Exclusion	14,000*	14,000*	14,000*

WAGES

- Contribute to employer sponsored retirement plans
- Employer sponsored Health Savings Accounts \$6,750 Family \$3,350 Individual catch-up 55 or over \$1,000*
- Utilize Flex-Spending Accounts \$2,500 limit
- Have employers reimburse expenses rather than pay wages
- Pay appropriate officer wages in S-Corps
- Include officer health insurance on W-2
- Accelerate or defer year-end bonuses

INTEREST AND DIVIDENDS

- Municipal bond interest not taxed at federal level (Utah and participating states not taxed at state level)
- Qualified dividends taxed at long-term capital gain rates
- Subject to new 3.8% Medicare Tax if over AGI \$250,000 MFJ \$200,000 Single

CAPITAL GAIN

- 20% Capital Gain Rate for taxpayers with taxable income over \$415,050 Single or \$466,950 MFJ*
- Installment sales
- Like-Kind Exchanges (IRC Sec 1031)(Real Property Assets or any other Real Property qualifies, homes don't qualify, must be property held in trade or business or investment property)
- Use combination of installment sales and Like-Kind Exchange
- Subject to new 3.8% Medicare Tax if AGI over \$250,000 MFJ, \$200,000 Single
- Capital losses limited to offset capital gains or \$3,000 allowed against other income categories
- Harvest capital losses from other investment to offset gains
- Non-Business Bad Debts are a capital loss (must document debt and collection efforts)
- Consider small business investment losses for corporations under IRC Sec 1244 (ordinary loss)

RETIREMENT DISTRIBUTIONS

- Roth Conversions to offset NOLs or maximize tax brackets. This may also be done to reduce future Required Minimum Distributions (RMD's), or to reduce a taxable estate.
- Consider donating Required Minimum Distributions to charity to avoid including in AGI and causing Social Security to be taxed (this is available only to individuals age 70½ or older)
- In-Plan 401(k) Roth rollover (plan must allow in plan document, will pay ordinary income tax but no penalty)
- Consider 401(k) loans in lieu of taxable distributions
- Consider exceptions to the 10% early withdrawal penalty

BUSINESS INCOME

- Proper basis of accounting and inventory being used
- Accelerate/delay income or prepay/defer expenses depending on tax situation
- DPAD (Domestic Production Activities deduction, the lower of 9% of qualified net income or 50% of W-2 wage)
- IRC Section 179 deduction \$500,000 for 2016 purchase threshold of \$2M limited to income cannot create a loss and cannot be revoked 2014 and onward.
- IRC Section 179 deduction \$250,000 for 2016 purchase threshold of \$2M for leasehold improvements for restaurant and retail business, limited to income cannot create a loss
- 50% Bonus depreciation on original use assets (no limit and can create a loss)
- Automobile depreciation limits luxury auto limits \$3,160 Trucks and Vans Gross Vehicle Weight 6,000 lbs or less \$3,560 heavy duty trucks over 6,000 lbs GVW have no limits
- Health Insurance and Health Reimbursement Plans (Sole Props pay spouse and deduct on Sch C)

RETIREMENT PLANS

- Simple IRAs \$12,500 plus \$3,000 catch-up if age 50 or over*
- Safe-harbor 401(k) \$18,000 plus \$6,000 catch-up if age 50 or over*
- Total contribution limit \$53,000 plus \$6,000 catch-up if age 50 or over*
- Defined Benefit contribution limit \$210,000*
- Traditional vs. Roth IRA contributions \$5,500 plus \$1,000 catch-up for 50 and over*

ORDINARY AND NECESSARY BUSINESS EXPENSES

- Automobile actual vs. mileage 54 cents per mile for 2016 (keep mileage logs)*
- Promotional expenses paid to non-profits claimed as advertising rather than contributions
- Paying children through business for work performed
- Cell phone, home internet, office expenses (if used for business)
- New home office deduction of \$5 per sq. ft., up to 300 sq. ft. (up to \$1,500)
- Travel and entertainment expenses (document properly)
- Lodging Per Diem High Cost \$282, Low Cost \$189 Meals High Cost \$68 Low Cost \$57*
- Self-Employed cannot use Lodging Per Diem but can use Meal Per Diem
- Accountable reimbursement plans
- Pay rent to LLC to avoid SE tax (be careful not to overpay and create Net Investment Income subject to 3.8% Medicare tax)
- Accurate accounting system in order to capture all deductions (Online Quickbooks is a great option)

HOBBY LOSS RULES

- Profit motive, increase in investment value, advice of professionals
- Consider S-Corporation or LLC business structure to save SE tax

OIL AND GAS INVESTMENTS

- Deduct up to 95% of investment made (look at amortization for AMT)
- Will offset all buckets of income
- Passive income after initial year
- Percentage depletion deduction

BUSINESS TAX CREDITS

- Research and development credits
- New markets tax credit (investments in community development entities)
- New small employer pension plan setup credit (50% of costs up to \$500)
- Small Employer Health Insurance Credit (Must be enrolled in State SHOP exchange)
- Work Opportunity Credit (for hiring qualified veterans up to \$9,600)
- Employer-Paid FICA on Tips (for amounts paid on tips above \$5.15 per hour)

RENTS AND ROYALTIES

- Passive loss rules do not allow passive losses to offset ordinary income
- Active Participation in Real Estate allows a \$25,000 loss against ordinary income phased out \$125,000 to \$150,000
- Cost Segregation Studies used to accelerate depreciation from 39 year class lives to 5, 7, & 15 year class lives
- Energy efficient improvements for insulation, mechanical, and lighting (IRC 179D studies)
- At-Risk, Basis Rules
- Cannot claim IRC Section 179 deduction but can claim bonus depreciation if original use
- Repairs versus Capital Improvements

PERSONAL ITEMIZED DEDUCTIONS

- Consider lumping itemized deduction into one year if close to the standard deduction each year
- Itemized Deductions are reduced by 3% of the AGI over the threshold (\$259,400 Single; \$311,300 MFJ*), limiting up to 80% of deductions
- Personal Exemptions Phased out by 2% for each \$2,500 over \$259,400 Single; \$311,300 MFJ*

MEDICAL EXPENSES

- Health Insurance (If does not qualify for Self-Employment)
- Consider paying with credit cards to lump installment payment plans in current year
- Medical travel and lodging
- Auto rate 19 Cents per mile*
- Phase-out is 10% of AGI for 2013 and later (unless over age 65)
- Consider setting up a IRC Section 105 plan if Self-Employed

TAXES

- Consider using sales tax if purchased large ticket items (vehicles, home improvements)
- Prepay state income tax before December 31 (Beware of AMT)
- Property taxes on investment property

INTEREST

- Mortgage insurance premiums still deductible for 2016
- Mortgage Interest deduction limited to mortgages under \$1,000,000
- Home Equity Mortgage Interest deduction limited to mortgages under \$100,000
- Investment Interest deductions limited to investment income
- Consider harvesting capital gains to utilize investment interest expense
- Investment Interest on flow-through entities deductible on Schedule E

CHARITABLE CONTRIBUTIONS

- Contribute appreciated capital gain assets and receive FMV deduction (limited to 30% of AGI)
- Contribute RMD directly to charity and avoid including RMD in AGI on income tax return
- Contribute to a Donor Advised Fund and get the deduction now designate charity and amounts later
- Pre-pay for missions
- Donations over \$5,000 required to have an appraisal if other than cash or stocks
- Auto Rate 14 Cents per mile

CASUALTY LOSS

- Fraud deductions offset ordinary income and can create a NOL
- Damaged personal property has a 10% AGI phase out (and \$100 threshold per occurrence)

INVESTMENT EXPENSES

- Legal fees to protect or defend property or investment claims
- Investment management fees
- Estate tax planning
- Losses from annuities and Roth IRAs if the entire account is closed out
- Tax preparation fees

UNREIMBURSED EMPLOYEE EXPENSES

- Auto Rate 54 Cents per mile*
- Travel
- Phone
- Home Internet
- Office in the home (New home office rules)

PERSONAL TAX CREDITS

- 10% Energy efficient tax credits for biomass stoves, HVAC, insulation, roofs, water heaters, windows & doors
- 30% Energy efficient tax credits for geothermal heat pumps, small wind mills (residential) and solar systems
- Adoption tax credit
- Earned income credit
- Dependent Care credit
- Child Tax Credit(s)
- Education Credits

ALTERNATIVE MINIMUM TAX

- Income and expense timing to minimize AMT
- State Income tax timing
- Consider accelerating deductions or income to average rates between years

ESTATE PLANNING ISSUES

- Annual gift exclusion \$14,000 per person for 2016*
- Estate exclusion \$5,450,000 for 2016*
- Unused Estate exclusion is portable to surviving spouse if an estate tax return (form 706) is filed
- Estate tax rate is 40% for 2013 and later years
- 529 Plan contribution for children and grandkids
- Irrevocable life insurance trust
- Updating wills, trusts, personal representatives, medical directives, durable power of attorneys
- Consider defective grantor trusts to freeze appreciating assets
- Is the trust (LLC) properly funded (titled)?
- Crummey letters issued for gifts to trusts
- Consider family limited partnerships or LLCs for gifting
- Certified business appraisals required for estate returns or gifting
- Consider naming individuals as IRA or retirement plan beneficiaries instead of a trust or estate

GENERAL ISSUES

- Buy/Sell agreements current or updated for valuation changes
- Corporate documents current and up-to-date (corporate books, minutes, shareholder notes)
- Lease documents current
- Employment contracts current
- Plan for business succession or transactions (basis step up issues on retirements or buyouts)
- Retirement planning

* Indicates that these amounts are indexed for inflation.

FEDERAL INDIVIDUAL INCOME TAX RATES – 2016 TAX RATES

MARRIED FILING JOINT

2016			
Married Filing Joint			
If Taxable Income is:		Ordinary	Capital Gains
-	18,550	10.0%	0%
18,551	75,300	15.0%	0%
75,301	151,900	25.0%	15%
151,901	231,450	28.0%	15%
231,451	413,350	33.0%	15%
413,351	466,950	35.0%	15%
466,951	Over	39.6%	20%
Remember .9% or 3.8% Tax over \$250k			

SINGLE

2016			
Single			
If Taxable Income is:		Ordinary	Capital Gains
-	9,275	10.0%	0%
9,276	37,650	15.0%	0%
37,651	91,150	25.0%	15%
91,151	190,150	28.0%	15%
190,151	413,350	33.0%	15%
413,351	415,050	35.0%	15%
415,051	Over	39.6%	20%
Remember .9% or 3.8% Tax over \$200k			

FEDERAL INDIVIDUAL INCOME TAX RATES – 2017 TAX RATES

MARRIED FILING JOINT

2017			
Married Filing Joint			
If Taxable Income is:		Ordinary	Capital Gains
-	18,650	10.0%	0%
18,651	75,900	15.0%	0%
75,901	153,100	25.0%	15%
153,101	233,350	28.0%	15%
233,351	416,700	33.0%	15%
416,701	470,700	35.0%	15%
470,701	Over	39.6%	20%
Remember .9% or 3.8% Tax over \$250k			

SINGLE

2017			
Single			
If Taxable Income is:		Ordinary	Capital Gains
-	9,325	10.0%	0%
9,326	37,950	15.0%	0%
37,951	91,900	25.0%	15%
91,901	191,650	28.0%	15%
191,651	416,700	33.0%	15%
416,701	418,400	35.0%	15%
418,401	Over	39.6%	20%
Remember .9% or 3.8% Tax over \$200k			

Individuals**Results of Law**

Tax Rates Increased on the wealthy 39.6% \$415,051 Singles \$466,951 Married	Permanent*
Capital Gain Tax Rates increased on wealthy 20% \$415,051 Singles \$466,951 Married	Permanent*
Qualified Dividends taxed at capital gain rates	Permanent
AMT exemptions \$84,500 MFJ, \$54,300 Single	Permanent*
Marriage penalty elimination in standard deduction and 15% brackets	Permanent
Itemized Deduction Phaseout starting at \$259,400 Single \$313,800 MFJ	Permanent*
Personal Exemption Phaseout starting at \$259,400 Single \$313,800 MFJ	Permanent*
State and local sales tax deduction	Permanent
Teacher \$250 unreimbursed supplies deduction	Permanent* (2016)
Tuition Deduction Pre-AGI of \$4,000	Thru 2016
Mortgage insurance premium deduction (PMI)	Thru 2016
Cancellation of Debt exclusion on home acquisition debt	Thru 2016
1202 Stock 100% gain exclusion (C-Corporation Startup Companies)	Permanent
Unified Credit (Estate & GST Tax Exclusion of \$5,450,000)	Permanent*
Unified Credit (Gift Tax Life Time Exclusion of \$5,450,000)	Permanent*
Portability election for estate spousal decedents-Must file form 706 estate tax return	Permanent
Coverdell Education Savings Accounts contributions \$2,000, available for K-12	Permanent

Individual Credits

Adoption Credit & assistance of \$13,570 - Not Refundable	Permanent
Alternative Fuel Vehicle Refueling Credit	Thru 2016
American Opportunity Education Credit - \$2,500 & Refundability	2013-2017
Child Tax Credit of \$1,000, also applicable to AMT and refundable	2013-2017
Dependent Care Credit for \$3,000 per child \$6,000 total	Permanent
Earned Income Credit increased amounts and brackets	2013-2017
Energy efficient home improvements (Insulation/windows/doors/HVAC)	Thru 2016
Two & three wheel plug in electric vehicles	Thru 2016

Business

Section 179 limits \$500,000/\$2,000,000 phase-out from 2014 onward this is not revocable or amendable	Permanent*
Section 179 limits \$250,000/\$2,000,000 leasehold improvement for certain businesses	Permanent*
Bonus Depreciation of 50% on original use assets	Permanent* (Decreasing to 30% in 2019)
3 year depreciation on race horses	Thru 2016
15 year depreciation life on leasehold, restaurant & retail property	Permanent*
Built in Gains period back to 5 years for S-Corp conversions	

Business Credits

Research and Development Credit	Permanent
Work Opportunity Credit	Thru 2019
New Markets Credit	Thru 2019
Wage Credit for activated military reservists	Permanent
Indian Employment Credit	Thru 2016
Employer-provided childcare facilities and services	Permanent

* Indicates that these amounts are indexed for inflation.

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