EBBS, ROBERTS, HEAD & DAW, INC.

~~CERTIFIED PUBLIC ACCOUNTANTS~~

www.erdhcpa.com November 7, 2017

611 Franklin
Hatch, NM 87937
(575) 267-5161

Jimmy D. Ebbs, CPA
Charles J. Roberts, CPA
Barbara J. Head, CPA
Marshall W. Daw, CPA
William C. Blanchard, CPA

715 E. Idaho Bldg. 1 Ste. A
Las Cruces, NM 88001
(575) 525-8750
Fax: (575) 525-9166
E-Mail: jebbscpa@aol.com

2017 Year-End Tax Planning for Individuals

A new tax bill, The "Tax Cuts and Jobs Act", was introduced in early November. Because this is a year-end 2017 letter, our guidance is aimed at 2017 tax planning rather than predicting 2018. If President Trump's proposals gain traction future tax rates are going to change. If and when a bill is passed we will send out an updated newsletter. Deductions, income shifting and perhaps even tweaking capital-gain strategies are among the topics that could emerge as year-end action items for individuals. Accelerate expenses into 2017 and delay (where possible) income until 2018.

1099 PENALTIES

Payroll tax filing dates for Forms W-2s and 1099s changed in 2016. The filing deadline and the deadline to give the forms to the recipients for 2017 is **January 31, 2018**. Make an effort to get these forms to the recipients before the end of January, so there is time for errors to be corrected before filing these forms with the Social Security Administration and the IRS. The penalty could be as much as $1000 for each omitted or incorrect 1099-MISC. Businesses are required to issue a 1099 whenever a payment is made to a non-corporate entity of $600 or more in one year.

If we prepare any forms W2 or 1099 for you or your household employees please get us the information in early January 2018 to meet the filing deadline.

DEPARTMENT OF LABOR OVERTIME RULE

The department of Labor is now attempting to rewrite a controversial rule regulating the overtime threshold for white-collar workers. As of June 30, 2017, the U.S. Department of Labor dropped its defense of the final overtime rule as written. The Department announced on Monday, October 30, 2017 it is revisiting the regulation proposal, which would have more than doubled the threshold at which employers must pay overtime. The regulators attempted to raise the minimum from $455 per week to $913 and establish automatic annual increases in the rate, spurring legal challenges from state governments and industry groups.

CRS-1 MATCHING

New Mexico Taxation & Revenue has been aggressively comparing gross receipts reported on Form CRS-1 to the amount reported on tax returns. ***If you file your own CRS-1's, please send us copies of the reports with your tax information so we can insure you are in compliance.***

AFFORDABLE CARE ACT

Contrary to popular belief you must still have qualified health insurance for all family members in 2017 or pay a penalty. ***If you receive a Form 1095 from any issuer or agency, we MUST have all copies to prepare your tax return***.

SEC. 179 EXPENSE AND BONUS DEPRECIATION FOR 2017

Section 179 of $500,000 applies permanently. The assets must be placed in service in 2017 to qualify for depreciation in 2017. Bonus depreciation applies at 50% through 2017 (reduced to 40% in 2018 and 30% in 2019). Assets must be new, not used and placed into service by December 31, 2017 to qualify for bonus depreciation.

IRA/401(k) CONTRIBUTION LIMITS

The simplest and most effective tax planning tool for all Americans of all income levels is full participation in retirement plans. Make sure you maximize your 401(k) deferral if available and contribute to tax deductible IRAs.

For 2017, your total contributions to all of your traditional and Roth IRAs cannot be more than $5,500 ($6,500 if you=re age 50 or older), or your taxable compensation for the year, if your compensation was less than this dollar limit. Remember you have until April 15th, 2018 to contribute to an IRA for the 2017 tax year.

Boost your 401(k) contributions

Unlike an IRA, which allows you to contribute for the 2017 tax year all the way up to the April 2018 tax deadline, your elective paycheck contributions to a 401(k) generally must be made before the end of the year. 401(k) contributions, unless they are characterized as Roth 401(k) contributions, reduce your adjusted gross income (AGI). For the 2017 tax year, you can defer up to $18,000 of your compensation into your 401(k), with and additional $6,000 catch–up contribution allowed if you're 50 or older. And to be perfectly clear, this doesn't include any employer matching contributions—this is just how much you can choose to contribute.

REQUIRED MINIMUM DISTRIBUTIONS IN 2017 (RMD)

If you are over 70½ you will need to make a required minimum distribution from your IRAs. If you turn age 70½ in 2017 you have until April 1, 2018 to take the distribution, but you must also take your 2018 distribution before December 31, 2018.

QUALIFIED CHARITABLE DISTRIBUTION (QCD)

A QCD is an otherwise taxable distribution from an IRA (other than an ongoing SEP or SIMPLE IRA) owned by an individual who is age 702 or over that is paid directly from the IRA to a qualified charity. An IRA owner could exclude from gross income up to $100,000 of a QCD made for a year and the QCD can be used to satisfy any IRA required minimum distributions.

CONVERTING FROM A TRADITIONAL IRA TO A ROTH IRA

Converting your traditional IRA to a Roth may still be a good idea in 2017 and 2018. You can withdraw all or part of the assets from a traditional IRA and reinvest them (within 60 days) in a Roth IRA. The amount that you withdraw and timely contribute (convert) to the Roth IRA is called a conversion contribution. If properly (and timely) rolled over, the 10% additional tax on early distributions will not apply, but the distribution is still subject to Federal and State income tax. Please do not convert your accounts without contacting us to discuss the positives and negatives. All conversions for 2017 must be completed by December 31, 2017.

CAPITAL GAINS AND QUALIFIED DIVIDENDS

The long-term capital gain and qualified dividend tax rate for taxpayers below the 25% bracket is equal to 0%. A top rate of 15 percent applies to qualified dividends and on the sale of most appreciated assets held over one year (28% for collectibles and 25% for depreciation recapture) for single filers with taxable income up to

$418,401 and $470,701 for married filing jointly. Long-term capital gains or qualified dividend income over that threshold are now taxed at a rate of 20%. Higher-income taxpayers may also be subject to the 3.8% Medicare surtax, making the long-term capital gains and qualified dividends subject to a 23.8% federal tax rate. Taxpayers in the 10% and 15% brackets may want to sell long-term investments before year end possibly qualifying for tax-free gains.

CHARITY

ALL deductions of any amount must have a receipt. Any individual contribution of $250 must also have an acknowledgment letter from the charity, and the letter must be dated by the date we file your return. Consider contributing stock to your church or favorite charity. You get a deduction for the fair market value of the stock, but you pay no tax on the capital gain. Actually, you can contribute any appreciated property and avoid capital gains.

MEDICAL EXPENSES

If you are under the age of 65 you can deduct medical expenses in excess of 10% of your adjusted gross income. If you are over 65 then the threshold remains at 7.5%. If you will itemize this year and you have a large amount of medical expenses, consider paying every medical bill you can before the year ends, such as optometrists, dentists, and prescription renewals.

CREDITS FOR COLLEGE COSTS

If you are paying your dependents= tuition on a monthly basis, you will get a larger credit if you pay the balance due by December 31, 2017. Please bring in any Form 1098-T, Tuition Statements you receive. **We also need any documentation of payments made by you for tuition.**

FEDERAL SOLAR TAX CREDIT EXTENDED

The federal solar tax credit was extended through December 31, 2019. The credit remains at 30% through 2019, then decreases to 10%. The credit is available toward the cost of solar energy systems, fuel cells, small wind energy systems and geothermal heat pumps.

YEAR END PLANNING FOR SELF-EMPLOYED

Employ Minor Children in the Family Business

Wages paid to a child under 18 years of age by a sole proprietorship are not subject to FICA taxes. A child claimed as a dependent is not allowed to claim himself or herself as a dependent. The standard deduction for single taxpayers this year is $6,350. If you pay your child $6,350 or less he/she will not owe any tax. If your child puts $5,500 in a deductible IRA, he/she could earn up to $11,850 and not owe any tax. If your child participates in 4H and receives a 1099 consider contributing to an IRA for your child.

Promise to Pay

A promise to pay or providing a note does not permit you to deduct the expense. But you can take a deduction if you pay with money borrowed from a third party. Hence, if you make a purchase with a credit card in 2017, you can take the deduction even though you won’t pay your credit card bill until 2018.

The IRS has continued to increase the number of limited scope audits which are focusing on auto, travel and meals. It is very important that you keep an auto log to substantiate your business mileage. Also, keep a calendar of your meetings for meals you are deducting, naming whom you met with and what was discussed.

If you have any questions, please call Charlie, Barbara, or Marshall. There is still time to setup an appointment for year-end tax planning by December 31. We recommend a meeting if you have had any major changes during 2017 or are expecting major financial changes in 2018, such as retirement, inheritances, etc.

There are hundreds of other changes, extensions and deletions that we will consider this year while preparing you return. We thank you for your ongoing support and will do everything to keep your tax burden the lowest legal amount.

Ebbs, Roberts, Head & Daw, Inc.