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DECEMBER 2017

YEAR-END TAX PLANNING

Although tax law changes have been passed by both Houses of Congress, we do not know the tax law applicable to 2018 because of the many significant differences between the two Acts. However, we can now conclude that the current law will generally be the law applicable to 2017. We believe that it is prudent to consider the following year-end actions.

Deductible Interest. Consider making your January 2018 home mortgage or other deductible interest payments in December 2017, so that the interest will be deductible on your 2017 return.

Medical and Miscellaneous Expenses. To be deductible, medical expenses must exceed 10 percent (7.5 percent for taxpayers or their spouses age 65 or older) of adjusted gross income, and miscellaneous itemized deductions must exceed 2 percent of adjusted gross income. Bunching, if possible, two years of your unreimbursed medical or miscellaneous itemized deductions (such as certain job-related expenses and investment expenses) into one year might allow you to exceed the deduction floors and obtain a deduction for at least part of these expenses. Thinking longer term, should you have a Health Savings Account?

Charitable Contributions. If you are planning to make a charitable contribution in 2018, consider a 2017 year-end contribution instead. If you hold highly appreciated stock or other investment, you might want to make a charitable contribution of the investment security (rather than of cash) to your charity. By doing so, you will get a deduction for the full fair market value of the investment security without being required to recognize a capital gain. Also, contributions charged on your credit card in 2017 count as 2017 deductions, even if you do not receive or pay the credit card bill until 2018. You might want to read the fourth page of the accompanying *Tax & Business Alert* for additional information on deductibility by various modes of payment. Also, you will want to be certain to obtain a properly worded written acknowledgement of your 2017 contributions prior to the filing of your return in 2018. The acknowledgement should include the "magic words" that the contributor did not receive any goods or services in return for the contribution.

State Income Taxes. If you pay quarterly estimated state income taxes, you might consider paying the fourth installment of your 2017 state tax estimate before December 31 so that it will be deductible on your 2017 tax return. You might also want to include any projected state balance due for 2017 (generally payable in 2018) in the estimated tax payment paid in 2017. Doing so will allow you to deduct the state tax payment in 2017. State income tax might not be deductible under the proposed tax law changes for 2018. If you are an employee, you might want to increase the amount withheld from your remaining 2017 paychecks to cover any projected balance due.

(Continued on reverse)

Whether or not you pay your state income taxes on a quarterly basis, you might want to consider paying any unpaid balance by filing a fourth quarter state tax installment and paying in 2017.

Depreciation. First-year bonus depreciation (50 percent of cost) and the section 179 expense allowance (limited to $510,000) for certain depreciable property is available for 2017.

Long-Term Planning

Income deferrals are attractive for 2017 with possibly lower 2018 tax rates.

Retirement Savings. Maximize your 2017 contributions to any tax-deferred retirement savings plan in which you participate, such as a 401(k) plan, a 403(b) plan, or a 457(b) plan.

Part-time businesses, self-employed business owners, etc. Self-employed business owners (including those with part-time or sideline businesses) who do not have a tax-deferred retirement plan should consider adopting one before year end. With 401(k) plans, a self-employed person can generally defer the income taxation on the first $18,000 ($24,000 if age 50 or older) of self-employment earnings and approximately 20 percent of earnings up to $180,000. For those sideline businesses without employees, this can be done without any staff coverage cost. Other options include Simplified Employee Pension plans (SEPs) and SIMPLE plans, both of which are often very cost effective.

Can We Help? As always, please let us know if we can help with your planning.

REMINDER – JANUARY 31ST DUE DATE

Businesses and household employers should remember that 2017 Forms 1099-Misc and W-2 must be filed with the Internal Revenue Service by January 31, 2018 to prevent penalties.

TIME TO COMPUTE PERSONAL-USE VALUE OF AN EMPLOYER-PROVIDED VEHICLE

Early January 2018 is the time to compute the 2017 personal-use value of employer-provided vehicles that must be reported on the employees' 2017 Forms W-2, and on which FICA and possibly federal income tax must be withheld and paid. Included with this newsletter is a form that you may use to compute the personal-use value of an employer-provided vehicle.

The form includes information on its reverse concerning additional details about the form.

SOCIAL SECURITY WAGE BASE INCREASES FOR 2018

The Social Security Administration (SSA) announced that the maximum earnings subject to the Social Security component of the FICA tax will increase from $127,200 to $128,400 for 2018. That is, the maximum Social Security tax that employers and employees will each pay is $7,960.80, and a self-employed person with at least $128,400 in net self-employment earnings will pay $15,921.60 for the Social Security part of the self-employment tax. The unlimited Medicare tax remains at 1.45 percent of all employee earnings (2.9 percent of all self-employment income). Individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly) will continue to pay an additional 0.9 percent in Medicare taxes.

COMPUTATION OF PERSONAL-USE VALUE OF EMPLOYER-PROVIDED VEHICLES—2017

Name of Employer ______________________ Name of Employee ______________________

Does the employer restrict personal-use to commuting only? ☐ Yes ☐ No If Yes, complete CEP157-B to determine if "Commuting Rule" applies.

VEHICLE INFORMATION

1. Description (make, model, and year)______________________
2. Valuation Date (The initial valuation date is the date placed in service. Subsequent valuation dates are based on a hypothetical lease for four full calendar years. For example, if a vehicle is first placed in service January 12, 2016, the second valuation date is January 1, 2021. The third valuation date would be January 1, 2025.)______________________
3. Fair market value on valuation date indicated at item 2 above______________________

EMPLOYEE CERTIFICATION

4. Total number of miles driven during 2017 ______ Miles
5. Total commuting miles during 2017 ______ Miles
6. Total other personal (noncommuting) miles during 2017 ______ Miles
7. Total personal miles (sum of line 5 and line 6) ______ Miles
8. Is another vehicle (other than an employer vehicle) available for personal use? ☐ Yes ☐ No

The above information is supported by adequate evidence and is correct to my best knowledge and belief. I understand this information will be used to compute the value of the personal use of this employer-provided vehicle, which will be reported on my W-2 for 2017.

Signed______________________ Date______________________
(Employee)

COMPUTATION OF PERSONAL-USE VALUE

9. Personal-use percentage (divide line 7 by line 4) ______%
10. Annual lease value (determine from table below based on fair market value at line 3 above) (prorate annual lease value based on number of days used if less than full year) **$**______
11. Personal-use annual lease value (multiply line 9 and line 10) **$**______
12. Gasoline provided by employer:
    a. Actual gasoline cost **$**______
    b. Personal portion actual cost [multiply line 9 and line 12(a)] **$**______
    c. 5.5¢ times personal miles (line 7) **$**______
    d. Personal-use gasoline [lesser of line 12(b) or line 12(c)] **$**______
13. Gross personal-use [sum of line 11 and line 12(d)] **$**______
14. Reimbursements made by employee **$**______
15. Net personal-use value to report on Form W-2 (line 13 minus line 14) **$**______

ALTERNATIVE METHOD OF COMPUTATION (Use this section *only if* vehicle meets requirements described below.)

This method is available if the fair market value at line 3 is $15,900 or less for automobiles and $17,800 or less for trucks and vans. Also, the employee must have regularly used the vehicle in the Company's trade or business, or the employee must have driven at least 10,000 total miles during the year (10,000 miles is prorated if vehicle available less than full year). Once this alternative method is chosen for an employee and vehicle, it must be used in all subsequent years until it fails to meet the criteria above.

1. Gross Personal-Use Value:
   (Personal Miles x 53.5¢ = ______) $______
2. Employee Reimbursement to Employer (______)
3. Net Personal-Use Value to Report on Form W-2 (1 minus 2) $______

ANNUAL LEASE VALUE TABLE

(1) Automobile Fair Market Value	(2) Annual Lease
$0- 999	$ 600
1,000- 1,999	850
2,000- 2,999	1,100
3,000- 3,999	1,350
4,000- 4,999	1,600
5,000- 5,999	1,850
6,000- 6,999	2,100
7,000- 7,999	2,350
8,000- 8,999	2,600
9,000- 9,999	2,850
10,000- 10,999	3,100
11,000- 11,999	3,350

(1) Automobile Fair Market Value	(2) Annual Lease Value
$12,000- 12,999	$ 3,600
13,000- 13,999	3,850
14,000- 14,999	4,100
15,000- 15,999	4,350
16,000- 16,999	4,600
17,000- 17,999	4,850
18,000- 18,999	5,100
19,000- 19,999	5,350
20,000- 20,999	5,600
21,000- 21,999	5,850
22,000- 22,999	6,100
23,000- 23,999	6,350

(1) Automobile Fair Market Value	(2) Annual Lease Value
$24,000- 24,999	$ 6,600
25,000- 25,999	6,850
26,000- 27,999	7,250
28,000- 29,999	7,750
30,000- 31,999	8,250
32,000- 33,999	8,750
34,000- 35,999	9,250
36,000- 37,999	9,750
38,000- 39,999	10,250
40,000- 41,999	10,750
42,000- 43,999	11,250
44,000- 45,999	11,750
46,000- 47,999	12,250
48,000- 49,999	12,750
50,000- 51,999	13,250
52,000- 53,999	13,750
54,000- 55,999	14,250
56,000- 57,999	14,750
58,000- 59,999	15,250

For vehicles having a fair market value in excess of $59,999, the annual lease value is equal to: (.25 x the fair market value of the automobile) + $500.

Auto Usage Form Contains Required Information

Employers must obtain the auto use information and certification from each employee to whom an auto is furnished in time to complete the fourth quarter payroll tax returns and the 2017 Forms W-2. Completion of the auto usage form on the reverse of this page will enable an employer to compile the information required for the income tax returns, payroll tax returns, and Forms W-2. Much of the information on the auto use form must also be included in the employer's federal income tax return. Accordingly, employers should retain the completed vehicle use forms as written evidence supporting the information in the income tax return.

If you provide vehicles to employees, you must withhold federal income tax on the personal-use value of the vehicles unless you elected not to withhold income tax by giving employees timely notice. If income tax is to be withheld, you can withhold a flat 25 percent or withhold as if the personal-use value is part of regular wages. If you did not compute or estimate the personal-use value and withhold taxes during 2017, the income tax and FICA (Social Security and Medicare tax) may be withheld from 2018 wages at any time between January 1 and April 1, 2018.

Regardless of when the taxes are withheld, however, the 2017 personal-use value is considered 2017 compensation, and the withholdings must be reported on the fourth quarter 2017 Form 941 and paid or deposited accordingly. Both the compensation and the withholdings must be included on the 2017 Form W-2.

An employer may elect not to withhold income taxes for 2018 on the personal-use value of a vehicle by notifying the employees in writing by January 31, 2018, or within 30 days after the employee is provided a vehicle, if later.

We will be glad to assist you with the completion of the auto usage form or answer your questions about its preparation.

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Tax & Business Alert

DECEMBER 2017

EDUCATE EMPLOYEES ON REQUIRED MINIMUM DISTRIBUTION RULES

The deadline for taking 2017 required minimum distributions (RMDs) is rapidly approaching: December 31, 2017. If you own a business and offer a 401(k) plan, it's a good time to think about how you can make sure your older employees are aware of the RMD obligations, including how the rules differ for IRAs vs. 401(k) plans.

IRAs VS. 401(k)s

To avoid a huge penalty, individuals must take RMDs from their IRAs (other than Roth IRAs) on reaching age 70½. However, the first payment can be delayed until April 1 of the year following the year in which the individual turns 70½. (Beware: Different RMD rules apply to inherited IRAs.)

Distributions from 401(k)s are different; current employees don't have to take 401(k) RMDs. Although the regulations don't state how many hours employees need to work to postpone 401(k) RMDs, they must be doing legitimate work and receiving W-2 wages.

There's an important exception, however: Owner-employees (if they own at least 5% of the company) must begin taking RMDs from the 401(k) beginning at 70½, regardless of work status.

If someone has multiple IRAs, it doesn't matter which one he or she takes RMDs from so long as the total amount reflects their aggregate IRA assets. In contrast, RMDs based on 401(k) plan assets must be taken specifically from the 401(k) plan account.

CALCULATING RMDs

RMD amounts change each year as the retiree ages, based on the applicable IRS life expectancy table.

For example, at age 72, the "distribution period" is 25.6, meaning that the IRS life expectancy table assumes that the account holder will live about another 25½ years. Thus, someone age 72 must withdraw 1/25.6 of his or her IRA or 401(k) account. Percentage-wise, that is 3.91%.

If someone lives to age 90, the distribution period would be 11.4, resulting in an 8.77% RMD. Although

OTHER FACTS ABOUT RMDs

Here are some additional facts about required minimum distributions (RMDs) that you can share with employees:

Beneficiary spouses. Account holders who have a beneficiary spouse at least 10 years younger are subject to a different RMD life expectancy table that allows them to take out smaller amounts to preserve retirement assets for the younger spouse.

Tax penalty. The tax penalty for withdrawing less than the RMD amount is 50% of the portion that should have been withdrawn but wasn't.

Form of distribution. RMDs can be taken in cash or in stock shares whose value is the same as the RMD amount. Although taking stock shares can be administratively burdensome, doing so can allow account holders to defer incurring brokerage commissions on securities they don't want to sell. Their tax basis in the stock (for future capital gains liability calculation purposes) will reset to the value of the securities when they're distributed.

the percentage amount increases over time, the IRS rules don't force retirees to zero out their accounts. Still, if an account holder lives long enough, he or she isn't likely to have a lot of funds remaining in the account at death.

INFORMED AND HAPPY

Remember, informed employees are happy employees — which can lead to more engaged, productive employees. We'd be happy to assist you in providing the most current, accurate information. ■

DAPTs OFFER A HOMEGROWN APPROACH TO ASSET PROTECTION

Your assets face many potential threats to their value, such as market volatility and inflation. Another threat, especially if you're at high risk for lawsuits, is creditors. The most effective way to protect assets from such a threat may be to transfer them to children or other family members, either outright or in trust, with no strings attached. So long as the transfer isn't fraudulent — that is, intended to delay or defraud *known* creditors — creditors won't be able to touch the assets.

If you wish to retain some control over your wealth, however, consider an asset protection trust. For affluent families with significant liability concerns, foreign asset protection trusts probably offer the greatest protection. But if you prefer to avoid the complexity and expense of these arrangements, look into a domestic asset protection trust (DAPT).

HOW DOES IT WORK?

A DAPT is an irrevocable, spendthrift trust established in one of the 16 states that currently authorize this trust type (Alaska, Colorado, Delaware, Hawaii, Mississippi, Missouri, Nevada, New Hampshire, Ohio, Oklahoma, Rhode Island, South Dakota, Tennessee, Utah, Virginia and Wyoming). Unlike trusts in other jurisdictions, a DAPT offers creditor protection even if you're a discretionary beneficiary of the trust.

You don't necessarily have to live in one of the previously listed states. But, to set up a trust in a state where you don't reside, you'll typically need to move some or all of the trust assets there and engage a bank or trust company in the state to administer the trust.

DAPT protection varies from state to state, so it's important to shop around. For example, different jurisdictions have different statute of limitations periods, which determine how long you'll have to wait until full asset protection kicks in. (During the limitations period, creditors can challenge transfers to the trust.) Also, most of the DAPT laws contain exceptions for certain types of creditors, such as divorcing spouses, child support creditors and pre-existing tort creditors.

Usually, DAPTs are incomplete gift trusts, which give you some flexibility to change beneficiaries or otherwise control asset disposition. But it's also possible to structure a DAPT as a completed gift trust, thereby removing the assets (and any future appreciation of those assets) from your taxable estate.

WHAT'S THE PRIMARY RISK?

A DAPT's main disadvantage is the uncertainty over whether it will withstand a court challenge. Although they've been around since 1997, DAPTs haven't been widely tested in court.

Most experts agree that, if you live in one of the states with a DAPT statute, a properly designed and funded DAPT will likely be effective. But some uncertainty surrounds trusts established by nonresidents.

IS IT THE RIGHT MOVE?

There are other ways to protect your assets from creditors, such as through insurance or use of various business entity structures. We can help you decide whether a DAPT is the right move. ■

5 COMMON MISTAKES WHEN APPLYING FOR FINANCIAL AID

Given the astronomical cost of college, even well-off parents should consider applying for financial aid. A single misstep, however, can harm your child's eligibility. Here are five common mistakes to avoid:

1. Presuming you don't qualify. It's difficult to predict whether you'll qualify for aid, so apply even if you think your net worth is too high. Keep in mind that, generally, the value of your principal residence or any qualified retirement assets isn't included in your net worth for financial aid purposes.

2. Filing the wrong forms. Most colleges and universities, and many states, require you to submit the Free Application for Federal Student Aid (FAFSA) for need-based aid. Some schools also require it for merit-based aid. In addition, a number of institutions require the CSS/Financial Aid PROFILE®, and specific types of aid may have their own paperwork requirements.

3. Missing deadlines. Filing deadlines vary by state and institution, so note the requirements for each school to which your child applies. Some schools provide financial aid to eligible students on a first-come, first-served basis until funding runs out, so the earlier you apply, the better. This may require you to complete your income tax return early.

4. Picking favorites. The FAFSA allows you to designate up to 10 schools with which your application will be shared. Some families list these schools in order of preference, but there's a risk that schools may use this information against you. Schools at the top of the list may conclude that they can offer less aid

because your child is eager to attend. To avoid this result, consider listing schools in alphabetical order.

5. Mistaking who's responsible. If you're divorced or separated, the FAFSA should be completed by the parent with whom your child lived for the majority of the 12-month period ending on the date the application is filed. This is true regardless of which parent claims the child as a dependent on his or her tax return.

The rule provides a significant planning opportunity if one spouse is substantially wealthier than the other. For example, if the child lives with the less affluent spouse for 183 days and with the other spouse for 182 days, the less affluent spouse would file the FAFSA, improving eligibility for financial aid.

These are just a few examples of financial aid pitfalls. Let us help you navigate the process and explore other ways to finance college. ■

ENSURING YOUR YEAR-END DONATIONS ARE TAX DEDUCTIBLE

Many people make donations at the end of the year. To be deductible on your 2017 return, a charitable donation must be made by December 31, 2017. According to the IRS, a donation generally is "made" at the time of its "unconditional delivery." But what does this mean?

Is it the date you write a check or charge an online gift to your credit card? Or is it the date the charity actually receives the funds? In practice, the delivery date depends in part on what you donate and how you donate it. Here are a few common examples:

Checks. The date you mail it.

Credit cards. The date you make the charge.

Pay-by-phone accounts. The date the financial institution pays the amount.

Stock certificates. The date you mail the properly endorsed stock certificate to the charity.

To be deductible, a donation must be made to a "qualified charity" — one that's eligible to receive

tax-deductible contributions. The IRS's online search tool, "Exempt Organizations (EO) Select Check," can help you more easily find out whether an organization is eligible to receive tax-deductible charitable contributions. You can access EO Select Check by entering "EO select" in the search box at irs.gov. Information about organizations eligible to receive deductible contributions is updated monthly.

Many additional rules apply to the charitable donation deduction, so please contact us if you have questions about the deductibility of a gift you've made or are considering making. But act soon — you don't have much time left to make donations that will reduce your 2017 tax bill. ■