



2016 Tax Year End

Special Issue

12-31-16

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2016 Is Over In Less Than 24 hours!!



With a new President coming to office early next year we can expect a number of tax changes to occur. This is a good time to get your income tax “house” in order for 2016. The tax filing deadline for 1040 personal tax return filing is April 18th, 2017, [due to Emancipation Day](#). However, corporations and partnerships must still file by March 15th. [See link here](#) for complete explanation of extended due dates.

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We are once again making our tax questionnaires available on our website, for free. Brand new for the 2016 tax season next year, we will be sending out individual tax organizers to a select few of you, which you can fill out with your income data, and electronically send back to us for a quicker upload of your tax info. We can send this to anyone who requests one. If you have not used one in the past please call the office to request one for 2016, as it is our attempt to be as thorough as possible in the preparation of your return. If you received an organizer last year we will mail this year’s organizer to the same address. The tax organizer may not be enough however, and we wanted to bring some special items to your attention below. If you do not file with us, and do not already use an organizer or checklist, you may use our questionnaire from our website to help you complete your taxes with your tax filing company or with your tax practitioner. Here is the link to the our [excel-based questionnaire](#) and to our [basic checklist](#) of docs you would need to file your taxes. Our [corporate questionnaire](#) for you corporate owners is on our website as well.

Last Minute Tax Strategies!!

1. If you are self-employed, prepay as many of your 2017 expenses now by writing those business checks or swiping that credit card. Buy those extra office supplies now, book that travel or continuing education seminar for next year now, or purchase that much needed equipment now, so you can depreciate it for 2016 (Section 179 or 168, for e.g.). Even if you own rental properties, consider paying some of your



vendors, like the fertilizing company, early. They'll gladly accept your payment, and you get to write off the 2017 expense for 2016! Consider fixing that car now, with the maintenance needed, if you use your vehicle more than 50% in your business -- it's deductible to the extent you use your vehicle in your business. REMEMBER to keep a [mileage log](#) of how much you used your vehicle in your business, for 2016.

2. If you are not self employed, and are an itemizer on Schedule A, then consider spending the necessary expenses for your continuing education and/or work-related travel for next year, now. Get that magazine subscription now, and pay that safe deposit box at the bank, if you have one, now!
3. Convert that Traditional IRA(s) into a Roth IRA by end of day today! See below for more info.
4. If you have a lot of high interest and dividend yielding investments, consider setting up an appointment with your tax and/or financial adviser for next year to reallocate those in tax deferred accounts if suitable for your financial plan. You'll save yourself the AMT, NII Tax, and possibly the Additional Medicare Tax.
5. Make those medical expenses today, if you're close to your year's medical expenses being 10% of your and your spouse/domestic partner's combined income. Make that COBRA or health insurance payment today!! If you're self employed, then your health insurance payments are ALWAYS a deduction on the first page of your 1040, as are your Medicare Part B premiums if you're a self-employed senior citizen!
6. Make that contribution into your Health Savings Account. You have until April 18th, 2017, but if you have a high deductible health plan (check with your health insurer), you can have a health savings account, and any amounts you put in here, up to a specific maximum, are always a deduction on the FIRST page of your personal 1040 tax return. [See here.](#)
7. Not a popular one, but how about making your alimony payments early? Your ex-wife/husband will surely thank you. Maybe not, but hey, it's a deduction if you can prove you mailed it by the 31st of December (as always, do a certified mailing with the USPS, or use a private courier like FedEx or UPS). Child support payments are NOT deductible to the payer nor is it taxable income to the receiver. So if you're crafting your divorce agreement now, consider negotiating your payments to your ex as alimony rather than child support. If you're on the receiving end, then negotiate those payments to you as child support, as alimony is taxable income to the receiver and a deduction for the payer.
8. Make that charity contribution ASAP! Swipe that credit card online with an IRS 501(c)(3) charitable organization (in other words, the charity can't be a foreign charity). Just check with your favorite temple, church, mosque, that they have this coveted 501(c)(3) IRS designation.
9. Defer your last paystub into a pretax 401K, if possible. Probably a little late for this one, but see if your employer will still allow you to amend the last paystub for 2016. Conversely, make sure you didn't OVERCONTRIBUTE to your 401K for 2016 (\$18,000 was the limit for 2016, or \$24,000 if you're 50 or over during 2016).

10. Make an extra state and/or local city income tax payment now, if allowable, for your estimated tax payment. Write that check today and put it in the mail, or make it online. This is handy if you itemize! You actually have until Jan 15th, for this one, so no need to rush on this one.
11. Sell those loser stocks! If you have some capital gains this year due to your profitable stock picks, you might want to harvest the losses to offset against those earlier realized stock gains. Be careful not to sell too many of your losing picks because after offsetting your realized gains, the maximum yearly deductible loss is just \$3,000 before the rest gets carried over to the next year. Make sure you DO NOT buy back these loser stocks in the next 60 days, else the loss is DISALLOWED!
12. Donate your used car! If you can't sell it because it's an unsellable junker, just go down to the local charity, and donate it. Donate the rest of your junk in the house too. How about donating old books, movies, and old CDs to the local library? Make sure to get the fair market value listed on those receipts from those (IRS 501(c)(3) organizations, like GoodWill, AmVets, Savers, Purple Heart, etc., etc.
13. Donate your appreciated stock! Same as donating cash monies, EXCEPT you get a deduction for the FMV of the stock, and NO capital gains taxes!!
14. If you're already 70 1/2 years old, and have IRAs which you haven't started taking the required minimum distribution from yet (RMD, MRD), then do NOT wait till April 1st of next year. Take it NOW! Else, next year, you'll have to take two distributions, one by April 1st of 2017, and one by December 31st 2017!). Roth IRAs have NO required minimum distributions.
15. Check the balance of your work flexible spending account. Check with your employer as to what the grace period is for using the balance of the FSA, otherwise you will lose most if not all of the monies in this FSA. Many employers have a grace period until March 15th, 2017, or let you roll over a max of \$500 to next year. So use it for any last minute allowed-for medical expenses, if possible.
16. Make your January mortgage payment now! Handy if you itemize. The interest has already been assessed for your December interest, which is normally due in January, but pay it now, and you can deduct December's interest in 2016. The 1098 you get from the mortgage company next year may or may not reflect this extra payment, so just be aware to review the interest paid in 2016 for your Schedule A itemized deductions.
17. Pay your real estate taxes early, if possible. Many counties do not accept early payments, but if you can, do so! This is valuable for those of you who itemize and for rental property owners.
18. Buy that furnace, ac unit, attic fan, windows, or door now, for your primary home, if you are interested in the energy credit (\$500 is the max credit).
19. This one is a self-interested, but pay your tax accountant early, or buy your tax software early, like today!!
20. Make a Traditional IRA contribution. Be careful to know if you qualify. See [this link from the IRS site](#) to know more. But the deadline for 2016 isn't until April 18th, 2017, the deadline for the 2016 1040 tax return, so NO need to rush. Alternatively,

consider making a ROTH IRA contribution (no deduction, but the monies grows tax free, FOREVER, so long as you keep the account for a minimum of 5 years).

21. Gift tax strategy: Okay, this is not an income tax deduction, but we didn't want you to let the 2016 year go by without you throwing away the annual exclusion. You can give away an annual \$14,000 away to anyone, to an unlimited amount of people, without having to file any form, or having to disclose it to the IRS. The giftee does not have to file anything either! This is for high net worth individuals who are looking to effectively and efficiently pass on their estate, in accordance with an estate and financial plan. So check with us, your tax practitioner, or your attorney to talk about this one.
22. Fund your child's or beneficiary's 529 today! Many states offer a deduction for the amount you pay into the 529. Make sure you check the limits (for e.g., IL gives you a deduction for contributions up to \$20,000).

Security and Identity Theft



The IRS has determined that one of the prime targets of data theft is tax preparation companies. This year we attended courses designed to improve the protection of our firm and your confidential data. One of the mandatory changes we are implementing immediately is our new “no-click” policy combined with a new information transfer policy. Because so many electronic intruders get in via email attachments, our firm has instituted our national tax professional security advisor’s recommendations and implemented a “no-click” e-mail policy. This means we will not open any documents that you have sent us via email—a mandatory solution, which when combined with our latest security software and other steps makes it extremely difficult for electronic intruders to get through our defenses. This brings the question about how you will transfer data to us, and vice versa. We now will accept data from you in 5 ways: surface mail; email attachments from a known email address we’ve used with you in the past, drop-off; fax; or mandatory upload to our web portal. We know these changes will cause some hassle on your (and our part) but it is the best way to protect your and our confidentiality.

Affordable Care Act

2016 ACA Filing Penalties

Better Late than Never

Time After Filing Deadline	Reduced Penalty*	Penalty Cap*	
30 days after filing: June 30th: Manual July 30th: Electronic	\$50 x Return	Small Business:	\$185,000
		Large Business:	\$529,500
By November 1st	\$100 x Return	Small Business:	\$529,500
		Large Business:	\$1,589,000
After November 1st	\$260 x Return	Small Business:	\$1,059,500
		Large Business:	\$3,178,500

* If a failure is due to intentional disregard of the requirement to file timely or to include correct information on a return, then the reduced penalties and penalty caps do not apply.

All Americans will be affected in some manner by the Affordable Care Act from 2010 (Some people call it Obamacare). One of the requirements is that all taxpayers must be covered by health insurance or pay a penalty, and this is proven through the release of Form 1095. ***If you received a Form 1095 from any issuer or agency we MUST have all copies to prepare your tax return.***

Health Care Deductions

2013's tax bill reduced your deduction for medical costs, including health insurance, for 2016. We will see very few deductions available for medical costs now unless you have substantial bills. The amount of your medical expenses in most cases must now be more than 10% of your income before we can deduct anything, so weigh carefully whether to go to the trouble of summarizing these costs. If you are self-employed we still need to know how much you paid for health insurance.



Charity



ALL deductions of any amount must have a receipt. Any individual contribution over \$250 must also have an acknowledgement letter from the charity, and the letter must be dated by the date we file your return. The letter should show the date and amount of any individual contribution over \$250, and should also state that no goods or services were received in return for the contribution. ***Remember if you charge a charitable contribution to a credit card by 12/31/2016 we are able to deduct it in 2016!***

Foreign Accounts

You must complete this part if you (a) had over \$1,500 of taxable interest or ordinary dividends; (b) had a foreign account; or (c) received a distribution from, or were a grantor of, or a transferor to, a foreign trust.		Yes	No
Part III Foreign Accounts and Trusts <small>(See instructions on back.)</small>	7a At any time during 2015, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions	<input type="checkbox"/>	<input type="checkbox"/>
	If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements	<input type="checkbox"/>	<input type="checkbox"/>
	b If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located ▶	<input type="checkbox"/>	<input type="checkbox"/>
8 During 2015, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions on back	<input type="checkbox"/>	<input type="checkbox"/>	

If you have read any news in the last year you know that the IRS is looking closely for offshore accounts. If you have an account, retirement account, or business interest with a value over \$10,000 in a foreign country, or a foreign business ownership (not through a mutual fund) please let us know as some special rules will apply to you. There are substantial penalties for failure to disclose these items.

The July 31, 2015 Highway Bill changed Form FinCen 114 ("FBAR") due date to April 15th effective for years beginning after 12/31/2015. Extended returns will be due October 15th. That means for 2016, the FinCen114 is due April 18th, 2017.

A person who holds a foreign financial account may have a reporting obligation even when the account produces no taxable income. The reporting obligation is met by answering questions on a tax return about foreign accounts (for example, the questions about foreign accounts on Form 1040 Schedule B) and by filing an FBAR.

Check the Yes box on Line 7a if:

The taxpayer owns more than 50% of the stock in any corporation that owns one or more foreign bank accounts. At any time during the year the taxpayer had an interest in or signature or other authority over a financial account in a foreign country (such as a bank, brokerage, savings, checking, demand, options, commodities, cash surrender value life or annuity policy, mutual fund, securities account, or other financial account) the box must also be checked. A financial account is also "a commodity futures or options account, an insurance policy with a cash value (such as a whole life insurance policy), an annuity policy with a cash value, and shares in a mutual fund or similar pooled fund.

Generally, a child is responsible for filing his or her own FBAR report. If a child cannot file his or her own FBAR for any reason, such as age, the child's parent, guardian, or other legally responsible person must file it for the child. If the child cannot sign his or her FBAR, a parent or guardian must electronically sign the child's FBAR. In item 45 Filer Title enter "Parent/Guardian filing for child."

Please make sure you fill out the foreign accounts section (there are several section for the various different types of foreign accounts mentioned above) in our [excel questionnaire](#). Or you can use this template with those foreign accounts tab to help you complete the FinCen 114 and/or 8938, the two foreign accounts disclosure forms.

Mortgage Interest



We must obtain Form 1098 from you when you pay mortgage interest. Additionally, we must obtain refinancing closing statements, and if you drew money out on a home mortgage or refinancing we must have general information on the use of the money according to the IRS.

Rental Property

If you own rental property, this year the IRS has demanded substantially more information. We now need, **FOR EACH PROPERTY**

SEPARATELY, the physical location, the type of property (single-family, duplex, etc), and Forms 1099-K received, and a record, by property of the number of days rented and the number of days used for personal purposes. Consider using our rental

property templates WITHIN our [excel questionnaire](#) in order to provide us with much of this info. If you bought a rental property, please provide us the Buyer Closing summary, such that we may be better able to calculate your depreciable cost basis for the depreciation deduction (Depreciation is MANDATORY!!). If you sold a rental property, please provide us with BOTH the original Closing statement from the original purchase, and the sale so that we can help you calculate your buying/selling costs and realized gain for income tax purposes.



Roth IRA Conversions



You will continue to hear from lots of “experts” this year that you need to convert your retirement accounts to Roth IRAs. While there are a number of advantages to conversions, there are an equal number of disadvantages that carry some major tax consequences. Please do not convert your accounts in 2016 without coming in to see us for an appointment to discuss both the positives and negatives. **All conversions for**

2016 must be completed by December 31, 2016.

Other Income

If you have any income from AirBNB, Turo, Etsy, EBay or similar consumer to consumer programs, please let us know because many income tax rules are affected and few of these sites provide you with adequate tax information. Our engagement letter also discusses this concern.



Tax Planning



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, contribute to tax-deductible IRAs, and if over 70 and ½ pay all charitable contributions through direct transfer from your IRA to the charity.

Check your employee handbook and see what other fringe benefits are available at work and call us if you aren't sure if it will benefit you. Some of the best fringe benefits provided by employers include cafeteria (or 125) plans, as well as child care plans and wellness programs.

Although there is no more time to setup an appointment for year end tax planning by December 31, we recommend a meeting after tax season, next year if you anticipate major changes for 2017 such as retirement, inheritances, etc.

Future Income Tax Rates & Other

Table 1. Single Taxable Income Brackets and Rates, 2017			Table 2. Married Filing Joint Taxable Income Brackets and Rates, 2017		
Rate	Taxable Income Bracket	Tax Owed	Rate	Taxable Income Bracket	Tax Owed
10%	\$0 to \$9,325	10% of Taxable Income	10%	\$0 to \$18,650	10% of taxable income
15%	\$9,325 to \$37,950	\$932.50 plus 15% of the excess over \$932.50	15%	\$18,650 to \$75,900	\$1,865 plus 15% of the excess over \$18,650
25%	\$37,950 to \$91,900	\$5,226.25 plus 25% of the excess over \$37,950	25%	\$75,900 to \$153,100	\$10,452.50 plus 25% of the excess over \$75,900
28%	\$91,900 to \$191,650	\$18,713.75 plus 28% of the excess over \$91,900	28%	\$153,100 to \$233,350	\$29,752.50 plus 28% of the excess over \$153,100
33%	\$191,650 to \$416,700	\$46,643.75 plus 33% of the excess over \$191,650	33%	\$233,350 to \$416,700	\$52,222.50 plus 33% of the excess over \$233,350
35%	\$416,700 to \$418,400	\$120,910.25 plus 35% of the excess over \$416,700	35%	\$416,700 to \$470,700	\$112,728 plus 35% of the excess over \$416,700
39.60%	\$418,400+	\$121,505.25 plus 39.6% of the excess over \$418,400	39.60%	\$470,700+	\$131,628 plus 39.6% of the excess over \$470,700

Table 3. Head of Household Taxable Income Brackets and Rates, 2017		
Rate	Taxable Income Bracket	Tax Owed
10%	\$0 to \$13,350	10% of taxable income
15%	\$13,350 to \$50,800	\$1,335 plus 15% of the excess over \$13,350
25%	\$50,800 to \$131,200	\$6,952.50 plus 25% of the excess over \$50,800
28%	\$131,200 to \$212,500	\$27,052.50 plus 28% of the excess over \$131,200
33%	\$212,500 to \$416,700	\$49,816.50 plus 33% of the excess over \$212,500
35%	\$416,700 to \$444,500	\$117,202.50 plus 35% of the excess over \$416,700
39.60%	\$444,500+	\$126,950 plus 39.6% of the excess over \$444,500

Source: IRS.

We highly recommend that when you are getting your information to us for your 2016 Federal tax return that you set an appointment for an after tax season "Tax Tune Up" to examine tax and estate planning strategies. If your income is over \$200,000 it is almost mandatory that we meet for future tax planning because of surtaxes.

There are literally hundreds of other changes, extensions and deletions that we will consider this year while preparing your return. Because of these changes we are requesting everyone to try to

have their tax information in to us at least two weeks earlier than normal, and no later than March 21, 2017. Please rest assured that we will utilize our best resources to once again provide you with timely, complete and accurate service while keeping your tax burden to the lowest legal amount. If you are not filing with us, then please understand it is good practice to have everything in order by an early enough date for your tax professional, so that you are not rushing at the last minute to file your taxes. Thank you again for your continued support.

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