Jack Skehan & Associates

TAX PREPARATION

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**Winter 2016 / 2017 Newsletter**

Dear Clients and Friends:

Since we've had no <u>major</u> tax legislation, I was planning on this year's newsletter to be a little shorter. It seems not to have worked out that way. The tax landscape being what it is, there are many new items and revised deadlines you need to know. We now have the first two years of the Affordable Health Care Act behind us and understand most of the tax consequences. New scenarios, of course will pop up, but we now have a good idea of where to find the answers. Will the ACA disappear as President Elect Trump proposed? What other tax changes are in the works? The answers to these questions (hopefully) will come during the earlier congressional session, rather than at the end of the year like we've been accustomed to. It would be great to be able to plan tax strategy again rather than desperately trying to react to late December legislation.

**Important Tax Planning for 2016:** With Donald Trump's election in mind and his pre-election tax platform to lower tax rates and simplify the tax code, here are some tax planning strategies that should be considered as part of your year-end planning to complete before the end of 2016:

1. Accelerate your income tax deductions – businesses should purchase NEEDED new equipment in 2016.
2. Postpone receipt of income.
3. Do not buy any capital assets this year (such as buildings and rental property).
4. Make gifts to charities and family foundations with appreciated assets.
5. Harvest losses to offset capital gains.
6. Establish and fund qualified plans.
7. Make annual exclusion gifts to chosen loved ones of $28,000 (per married couple).
8. Make distributions of income from trust accounts and estate accounts to lower the income tax liability.
9. Host annual meetings for your family office, partnerships and foundations.

As usual, your <u>prescheduled tax appointment</u> is on the address page of this package. If the time conflicts with your schedule or if would prefer another time, we will happily accommodate your needs. If you do not find a pre-scheduled appointment and need one, call immediately! We tried hard not to overlook anyone and apologize for any oversights we may have made. <u>We again will have our confirmation drawing and two winners will each receive a $250 check! Call, fax, or email us - last day to confirm and participate in the drawing is Saturday, January 28, 2017</u>. Congratulations to last year's winners, Laura Gabriel and Peter & Sue Slefinger.

Each tax season brings challenges and this past year did as well, with Rozi taking a tumble on the ice and missing work during the busiest part of the season. She does have a special relationship with her clients and the good news is you will be reunited with her this year. A big thanks to our staff -- Tim Skehan, Pamela Cartonio, Kathy Casparius, Dan Casparius, Edna Cayford, Brian Devins, Mary Ann Grazioso, Mike Karagiannes, Ike McLaughlin, Joe Palleschi, Dan Parkinson, Bonnie Pedersen, Bob Pollis, Polly Powers, Mina Stearns and Justin Stewart -- for stepping up, and for all you do throughout the year. Our entire team did an excellent job!

We welcome Nicole King to our year round staff. Nicole recently earned her Associate of Science Degree in Business Administration, with a concentration in Financial Accounting, at UMA. She comes to us highly recommended by her accounting professor. We expect her to be a great addition to our team as she begins her accounting career at Jack Skehan and Associates. Nicole will be helping with many of my clients, with my supervision, as it becomes necessary for me to spend more time at home with Judy.

As always, thank you to everyone – our long term clients and the many clients we welcomed this past year – for choosing our firm to provide your tax, accounting and financial services. We know you have many choices when selecting your tax and financial services provider, and we are very pleased you chose us. If you have questions about the services we offer, or about any of the tax and financial services we've provided, give us a call. We will be glad to discuss your needs or concerns. Also, more clients seem to be benefiting from <u>our complimentary</u> one hour tax and/or financial consultation. Don't miss your opportunity. We offer this consultation to every client during off peak season because it is important to know and understand in advance how potential events and/or transactions will affect your taxes, investments or retirement. It may be especially important this coming year, as we expect many new tax laws from Congress.

**Construction around the office:** As you may be aware, the City of Gardiner acquired the former T. W. Dick properties on Summer Street, behind our office. Contractors are working to remedy environmental concerns and prepare the area for redevelopment. The timeframe for this work is November 2016 thru April 2017, assuming work proceeds as scheduled. We don't expect major travel inconveniences for our clients. In 2018 and 2019, the Maine Department of Transportation plans to replace the two bridges over Cobbossee Stream, one near our office and one on Main Avenue near Harvey's. While these projects are a year or two away, we anticipate there will be more traffic concerns at that time.

**Help us help you and also keep your tax preparation fee lower**: Again we are enclosing a tax questionnaire with this client letter. We do this to help you <u>fully</u> prepare for your annual tax visit. By completing the questionnaire before coming to your appointment you should be able to note questions you'd like to ask, help uncover areas for potential tax savings, and end with a checklist of needed documentation, to minimize delays and associated additional time charges. Also, please <u>read</u> and sign the enclosed Engagement Letter. Besides stating the obvious about providing true and complete data, and that we will only use that information to complete your tax return, the Engagement Letter also explains how we charge for our services.

**Beware of Continuing Tax Phone Scams, Fraud & Tricks**: The scammers are getting more creative. You may be contacted by letter, email, fax or phone. Don't fall into the scammers trap! All of these tactics are scams – from crooks – trying to (and probably successfully) make more money - easier - than they could legally. If you are contacted by a scammer, take their contact information and HANG UP! **<u>Under no circumstances should you reveal any private information over the phone or thru email</u>**. Then immediately call us - your tax professional - at 582-1040. We'll advise you of the next step, which probably will be to ignore the entire incident. Remember: The IRS will only make initial contact with you via US Mail (see below). And no matter whom you receive contact from, we want to help. A timely response is essential.

- **If you were issued an IRS Theft ID Pin, please bring the form with the PIN to your appointment. Your tax return may not be accepted by the IRS without it.**

- **For 2016 tax returns, our tax software requires us to <u>verify your identity</u> with a driver's license or state ID; we may not be able to file your tax return without it.**

**New or expanded IRS initiatives** implemented for 2017, to combat the fraudsters' efforts, include:

- New data elements transmitted to strengthen the authentication that a tax return is being filed by the real taxpayer.
- New data elements transmitted to strengthen the authentication of business tax returns.
- Financial services will work toward flagging suspicious refunds before they are deposited into taxpayer accounts.
- Private sector partners are enhancing efforts to identify the "ultimate bank account" to ensure that the refunds go into the taxpayers' actual accounts, rather than that of the scammer.
- The software industry will continue to enhance software password requirements for individuals and tax professional users, providing additional safety prior to filing.
- An earlier filing schedule for Forms W-2. The deadline for filing Form W-2, Wage and Tax Statement, and other information returns is now January 31st each year, beginning in 2017.
- W-2 verification codes. The IRS will substantially expand its pilot program assigning verification codes to the form as a safeguard against fraudulent W-2s. The codes are transferred to electronically filed returns to verify authenticity, and will be expanded to 50 million W-2s in 2017.
- Earned Income Tax Credit (EITC), American Opportunity Tax Credit (AOTC) and Additional Child Tax Credit (ACTC) Verification. **Beginning with the 2017 filing season, the IRS is required to hold tax returns claiming either the EITC or ACTC, until Feb. 15.** The change gives the IRS more time to verify the income claimed on these returns and prevent fraud related to fabricated wages and withholdings. The agency is aware this will be a major change for some taxpayers; there will be an extensive communications campaign to highlight the changes and raise awareness. Even so, the IRS says taxpayers should file their returns as they normally do. Whether claiming tax credits or not, the IRS cautions taxpayers not to count on getting a refund by a certain date, especially when making major purchases or paying other financial obligations. So what's the solution if you don't like the idea of a tax refund delay? Adjust your tax withholding so you get more take-home money, and a smaller refund.

We at Jack Skehan and Associates also take our duty to protect your data very seriously. We just installed a new server with a new operating system and the latest security software. We've also updated our security system.

**IRS to Start Audit Process by Mail, Not Phone:** The change in policy comes in response to the continuing threat of phone scams, phishing, and identity theft. IRS employees must use initial contact letters included in the Internal Revenue Manual. After giving the taxpayer two weeks to respond, employees may then contact the taxpayer by phone. IRS is also evaluating other contacts with taxpayers, outside of the examination context, to determine whether they present risks with respect to phone scams and other such threats.

**On-Demand Businesses Get Tax Help From IRS**: The IRS has launched a web page providing informal guidance for individuals and groups using technology to generate income through vacation rentals and ridesharing services. The web page, dubbed the Sharing Economy Resource Center (https://www.irs.gov/businesses/small-businesses-self-employed/sharing-economy-tax-center), provides tips to help people meet their tax reporting obligations. This rapidly evolving area often presents new challenges for people engaged in these economic activities, whether they are renting a room or providing a ride. The IRS is working to help people by providing them the information and resources they need to file accurate tax returns.

Many individuals engaged in these activities are unaware of the tax consequences when they accept payment. The news release highlighted some tax compliance issues facing those engaged in on-demand business activities, such as reminders that:

- Individuals usually owe tax on any income even if they do not receive a Form 1099, W-2 or other income statement
- Special rules apply to rental income from a home, apartment or other residence used by a taxpayer during the taxable year; and
- Individuals who participate in the sharing economy often need to make quarterly estimated tax payments because the "U.S. tax system is pay-as-you-go."

**Crowdfunding - Tax Treatment Is Fact-Dependent:** The IRS said income tax consequences of a crowdfunding effort depend on all of the facts and circumstances of a particular case. The informal guidance, said generally money received without an offsetting liability, such as a repayment obligation, that is neither a capital contribution to an entity in exchange for a capital interest nor a gift, is includible in income. Thus, the agency said, crowdfunding revenue generally is includible in income if it is not:

- A loan that must be repaid,
- Capital contributed to an entity in exchange for an equity interest, or
- A gift made out of detached generosity and without any quid pro quo.

In addition, the IRS said "crowd funding revenues must generally be included in income to the extent they are received for services rendered or are gains from the sale of property."

Treasury regulations provide that income isn't constructively received by a taxpayer if the taxpayer's control of its receipt is subject to substantial limitations or restrictions. However, a self-imposed restriction on the availability of income doesn't legally defer its recognition.

**The Affordable Care Act:** Many of you are insured under the Affordable Care Act. If you receive a subsidy, you will again need to reconcile the subsidy received versus the subsidy entitled to according to income. Form 1095-A is to be mailed by January 31st, Forms 1095-B and 1095-C should be in the mail by March 2nd. Bring these forms to your tax appointment. As in 2015, if you can afford health insurance but choose not to buy it, you must pay a fee or have a health coverage exemption. In 2016, you'll pay the **higher** of (A) **2.5% of your yearly household income** (only the amount of income above the tax filing threshold, about $10,350 for an individual in 2016, is used to calculate the penalty. The maximum penalty is the national average premium for a Bronze plan) **or** (B) **$695 per person ($347.50 per child under 18).** The maximum penalty per family using this method is $2,085. Just so you know, the IRS discourages filing an extension if form 1095 is part of your tax return.

**Education Credits and Tuition Deduction:** Effective with tax years beginning on or after June 29, 2015, no education credit (American Opportunity Credit, Hope Scholarship Credit, or Lifetime Learning Credit) or tuition deduction is allowed unless the taxpayer receives a Form 1098T. A statement received by the dependent is treated as if it was received by the taxpayer. Since IRS now requires school information on Form 8863, this change requiring a Form 1098T to exist isn't too surprising. ***Where many 1098T forms are not reliable, we are continuing to require an account history from the college or school where the student is enrolled***. Getting this report in advance will help with timely tax return completion. For example, the University of Maine

System's MaineStreet Portal can be accessed to obtain this information; we think many colleges and universities have similar opportunities. Hopefully this will be the last year you'll need to get this information, as trade schools, colleges and universities are required to accurately report qualified expenses PAID, beginning in 2017.

**Major Changes to FAFSA:** The Free Application for Federal Student Aid (known as FAFSA) is a form that current and prospective college students (undergraduate and graduate) use to determine their eligibility for student financial aid. Many taxpayers turn to their tax professional for help filling out this form. Two major changes to this program are:

1. **The 2017–18 FAFSA will be available earlier.** The 2017–18 FAFSA can be filed as early as October 1, 2016, rather than beginning on January 1, 2017. The earlier submission date will be a permanent change.
2. **FAFSA will accept earlier income and tax information.** Beginning with the 2017–18 FAFSA, the program will request the 2015 income and tax information, rather than the 2016 information.

More information and FAQs can be found on the U.S. Department of Education blog.

**Owe money to the IRS? New Private Debt Collection Program to Begin Next Spring; IRS Fears Scams:** Ongoing phone scams where callers pretend to be from the IRS in order to embezzle funds from unknowing taxpayers could hamper the agency's new private debt collection program, which is set to begin in the spring. Whether taxpayers will actually answer phone calls from the four private debt collection companies set to begin pursuing long-overdue taxes in the spring—or whether they will consider the calls to be scams—is the "biggest unknown" about the program, IRS Commissioner John Koskinen said. The issue has concerned the agency since Congress required the IRS to restart the program late last year. Koskinen emphasized that the IRS will notify taxpayers and their representatives in writing that their accounts are being transferred to a private debt collector, and will send a second letter to confirm the transfer. The letters should help reassure taxpayers, though Koskinen did acknowledge scammers may also try sending fake letters. Still, taxpayers should be savvy and "understand when you pay your taxes **you don't pay on a debit or iTunes card**," Koskinen said, referring to scammers' preferred methods of receiving payments. "My goal has been to set this program up so it works to the extent we can make it work."

**IRS hopes to collect billions of dollars from non-filers**: IRS has a strategy in place as part of its Case Creation Nonfiler Identification Process to identify taxpayers who have not filed a tax return and are required to do so."

**IRS Announces Proposed Installment Agreement Fee Increases:** The IRS issued proposed regulations increasing the fee for regular installment plans to $225, an 87.5 percent increase from the current $120 fee. Paying by direct debit from a bank account would cost $107, more than double the current fee of $52. Restructuring or reinstating an installment agreement that is in default would cost $89—an increase from the current $50 fee, the IRS said. The rates would be effective next year. Proposed regulations also provide decreased fees for those able to pay electronically or who have online direct debit agreements. The bottom line: if a taxpayer cannot set up an online agreement, and does not qualify under the rules for low-income taxpayers, installment agreements will be significantly more expensive.

The IRS is also overhauling its installment agreement (IA) program, creating two buckets (expedited IA for balances up to $50k and expanded IA for balances between $50k and $100k). The changes look taxpayer friendly and include an 84 month (or Statute of Limitations, whichever is shorter) repayment period for IAs over $50k and a limited (or "express") compliance check for IAs under $50k.

**VW/Audi Settlement - Taxable or not?**

- In general, “any settlement you get for something other than personal physical injury or sickness is taxable. Other settlements, such as for back pay and punitive damages, are taxable.
- In the case of property, if the settlement merely restores your original value, it’s not taxable, but if it enriches you beyond where you were before, it is taxable.
- Theoretically, owners who sold their cars back would not owe tax if the combined payment (trade-in plus cash payment) was less than their basis, which is generally what they paid for the car (or the depreciated basis if they used it in a business). If it was more than the basis, taxes could be owed on the excess.
- If the car was kept and fixed, the cash payment likely would not be taxable if the payment was designed to compensate for lost value.
- If the car was leased, the payment could be taxable because “there was no basis” in the car.

**Selling Your Home?** Many clients seem unaware of the tax law change in 1997. IRC section 121 allows a taxpayer to exclude up to $250,000 ($500,000 for certain taxpayers who file a joint return) of the gain from the sale (or exchange) of property owned and used as a principal residence for at least two of the five years before the sale. A taxpayer can claim the full exclusion only once every two years. A reduced exclusion is available to anyone who does not meet these requirements because of a change in place of employment, health or certain unforeseen circumstances. Unlike under former law, the gain on the sale of a house is now permanently excluded, rather than deferred, and a taxpayer doesn’t have to purchase a replacement home to exclude the gain. If your home has ever been used by you for business or rental, it gets a little more complicated.

## Useful Information and Reminders

**Yes, We Have a Small COLA:** The Social Security Administration (SSA) confirmed that Social Security recipients will receive a 0.3% cost of living adjustment (COLA) in 2017 and that the wage ceiling subject to Social Security taxes increase to $127,200.

**Congress continues to fund the IRS below the level requested by the agency**, forcing tough decisions. For local taxpayers, this has resulted in a reduced footprint in the Augusta IRS office, and fewer local auditors as well. On the tax professionals’ hot line, we’ve experienced a much improved response time. However, on the taxpayer side, we are still hearing wait times of 30-60 minutes and some messages asking the caller to hang up and call another time.

**Children, Summer Jobs and IRAs:** If your children or grandchildren have summer jobs, you can give them a secure start on a secure retirement by encouraging them with a cash gift – to contribute to a Roth IRA. A child can put up to $5,500 for 2016 (but no more than earnings for the year). If you provide the money it’s counted as a gift and counts toward your $14,000 annual gift tax exclusion. Key tax benefits of Roths: Withdrawals made after 59½ are tax free; if the child needs money in a pinch, contributions (but not earnings) can be withdrawn before age 59½ without taxes or penalties, and up to $10,000 of earnings can be taken out free of tax at any time to help buy a first home.

**Did you inadvertently miss the 60-day time limit** for properly rolling a retirement plan withdrawal into another retirement plan or IRA? Revenue Procedure 2016-47 provides a self-certification procedure designed to help recipients of retirement plan distributions who may have missed the deadline.

Do you have an **up to date will**, a living will, a medical power of attorney and a financial power of attorney? I urge everyone who is missing one or more of these important documents to act. Also, for couples, do each of you have an understanding of your tax and financial situation? Now, while you have a mentor, is the best time to become familiar with what you own and what you owe, where your financial accounts are, etc. Start with a three ring binder and fill it with all pertinent information.

Be sure to **look over the tax forms** we prepare for you. See any errors? Mistakes happen – the earlier they are caught, the earlier they can be corrected.

**Sometimes, we are asked to mail or fax copies of tax returns to bank and/or credit unions, etc**. The IRS requires us to have a very specific, written consent form on file. We can provide one for you, or you can print one from a link on the bottom of the home page of our website. Since emails and faxes have the potential to arrive at an unintended destination, either due to human or technical errors, our Engagement Letter now includes a hold harmless agreement should your request to fax or email arrive at an unintended destination.

**Would you rather drop off or mail your tax information?** If this is more convenient than coming in for an appointment, let us know. We will interview you by telephone or Skype to make sure nothing is overlooked and enter you in our confirmation drawing. Also for clients with mobility issues, who live within a reasonable proximity of our office, we will pick up your information and return the completed tax return to you. There is no extra charge for clients using this service. Be sure to complete and enclose the tax questionnaire and Engagement Letter.

**Moved in the past year? We still want to prepare your tax return**. We serve many clients who work and/or live in a state other than Maine. In fact we prepared tax returns last year for clients with filing responsibilities in over half the states that impose an income tax. Technology makes this happen quite easily. Simply mail, fax, or scan and email your information. We will schedule an interview and prepare your tax return as accurately as if you were present in our office. Again, inform us in advance and you will be entered in our drawing as well.

**We are accepting new clients**. Our referral reward program is continuing. Referrals from existing clients continue to be our best source of new clients. For each new client referred for 2016 returns, who has us prepare their tax return, you will earn a **$35** credit toward your 2017 tax preparation (the tax return we will prepare in 2018). Referral Coupons are enclosed with this letter. To all those who referred clients to us during the last tax year, thank you. Please verify proper credit is received when picking up your tax return.

**Tax Organizers**: Available upon request.

**Are you at least age 70½?** Yes? Do you have an IRA or qualified plan? It's time to start required minimum distributions (RMD) unless there is an exception that exempts you. Those of us over 70 ½ are now able to donate directly from our IRAs to a favorite charity, while saving tax dollars. This provision has been made permanent. Not there yet? Make 'catch up' contributions to your retirement plan if finances permit.

**Report of Foreign Bank and Financial Accounts (FBAR) (also known as FinCEN). FBAR forms are now due April 15th and one 6 month extension to file is now available.** United States persons are required to file an FBAR if you have a financial interest in or signature authority over a foreign financial account located outside the United States. This includes bank or brokerage accounts, mutual funds, trusts, investment property, or other type of foreign financial account, where the **aggregate** amount exceeds $10,000. The Bank Secrecy Act requires you to report the account yearly to the Department of Treasury by electronically filing Form 114.

**Do you own matured Savings Bonds?** The interest earned on savings bonds is reportable in the year the bonds mature – if cashed or not! If you own some older bonds, check the maturity date.

**Filing and paying your taxes** are two distinct activities. They are penalized separately, and the failure to file/late filing penalty is much higher than the failure to pay/late paying penalty. In addition to minimizing penalties there are several good reasons to timely file even when you can't pay, such as applying for a loan or filing bankruptcy. Filing before an extended due date is considered a timely filing. If a balance due is owed with an extended return, that payment will be late and penalized even though the return itself is not late.

**Audits and/or examinations:** We've helped a few clients with audits this year. The auditor's job is simply to verify the accuracy of the tax return as submitted, and the taxpayer's job is to prove the income and deductions claimed on the tax return, per the IRS requests. Generally, when the proof was available, the audit results were 'no change'. When some of the proof was not available, the taxpayers didn't fare quite as well. Please keep good records – cancelled checks and receipts – so if your return is chosen for audit – you will end up in the 'happy' group!

**This also might be a good time to mention Form 8332.** This is the form a custodial parent signs to allow the non-custodial parent to claim his or her child and seems to supersede the divorce or court decrees in authority. We suggest signing this form at the same time the decree is issued. As with all tax matters, you are urged to use caution and get both tax and legal advice when executing this form.

**Record retention information** can be found on our website under the tax help center, as well as lots of additional information. Rozi manages and maintains our site for us and we are very thankful for her efforts.

**Payment for our services:** If you would like to have our tax preparation fee deducted from your refund, please make us aware of this during your tax appointment. There is a minor bank fee for this to happen.

**Are you owed money from the IRS?** The Internal Revenue Service needs to take action to resolve millions of dollars in so-called "frozen credit accounts" that are effectively in a state of limbo, preventing some taxpayers from receiving their tax refunds. These accounts require special handling or await the occurrence of a pending future event. If your refund falls into this category, call us to help get this money released.

**The gifting amount remains at $14, 000 per year**, per person, without triggering mandatory filing of IRS Gift Tax Form 709.

**Save Money on Property Taxes:** Have you owned your home for at least 12 months and you are a Resident of Maine? If you answer yes to both of these questions you should qualify for the Homestead Exemption—call your town office today and ask about it. You have to file your paperwork by April 1st in your city or town of residence in order to receive the deduction on your fall tax bill.

**Are you or your spouse a veteran <u>and</u> at least 62 years old?** If yes, you qualify for the Veteran's Exemption. You will need form DD214 when you call your town hall.

- Both of these exemptions only have to be applied for once; thereafter you will receive the reduction automatically. This is not a rebate. It is a reduction to the amount of taxes you pay. They are for everyone regardless of income. Call your town office with any questions. If you move to a new home, you need to request that they transfer these exemptions to your new home.

**Child Tax Credit:** Effective with tax years beginning after December 31, 2014, the refundable portion (if any) of the child tax credit is DENIED for any taxpayer who excludes ANY amount of gross income using the foreign earned income exclusion (i.e., Form 2555).

**Public Safety Employee:** The exception from the 10% early distribution penalty for "public safety employees" who retire after age 50, is changed to include Federal employees who are law enforcement officers, customs and border protection officers, firefighters, or air traffic controllers, effective with distributions after December 31, 2015.

**Uniform Basis for Inherited Property:** The basis of inherited property is controlled by Section 1014, which says, in general, that the FMV of the property on the date of the decedent's death is the new owner's beginning basis. This is generally the value found on the estate tax return (Form 706). A new section of law (1014(f)) applies if there is a Form 706 filed AND the tax, after credits, on the 706 is higher that it would have been if this particular asset did not exist. Executors of estates are required to give information to the beneficiary and to IRS showing the value of property inherited by that beneficiary, as well as any other information the IRS chooses to require.

An important component is called the "portability election," which allows the surviving spouse of a decedent (who dies after Dec. 31, 2010) to use the "deceased spousal unused exclusion amount (DSUEA)." This is in addition to the surviving spouse's own basic exclusion amount (the amount that can be transferred at death free of federal estate tax) when making gifts and upon death. One must file form 706 to elect portability.

**Change to Six Year Statute under Section 6501:** Generally, the statute of limitations for IRS assessment of tax is three years. Under Section 6501 it is extended to six years if there is an understatement of gross income. Congress expanded the definition of "understatement of gross income" by stating it includes an overstatement of basis or unrecovered cost. This provision is effective with returns filed after July 31, 2015, AND any returns which are still open under the normal three-year statute of limitations (without regard to this provision).

**Important - Due Dates of Various Returns Change:**

- **Partnerships (Form 1065):** Effective for taxable years beginning after December 31, 2015, the due date for partnership tax returns becomes the fifteenth day of the third month after the end of the partnership's tax year. This means the due date for unextended calendar year partnership tax returns becomes March 15, the same due date as S Corporation tax returns. Congress also dictates to IRS that the maximum extension period for calendar year partnership tax returns cannot exceed one six-month period. IRS can choose a shorter prior of time if it desires such.
- **C- Corporations:** Effective for taxable years beginning after December 31, 2015, the due date for C Corporation tax returns also changes. The due date is changing to the fifteenth day of the fourth month after the end of most C Corporations' tax years. There are some special rules for fiscal year C

Corporations, as well as C Corporation extensions. We will inform our clients who are affected.

- **Form 1041:** The only other due date change likely to affect our clients is for calendar year trust / estate income tax returns that now have a five and half month extension period ending September 30th.
- **Form 1098, Mortgage Interest Statement:** Effective with statements required to be furnished after December 31, 2015, the Form 1098 will include the following new information: The amount of the outstanding principal at the beginning of the year, the date of the origination of the mortgage, and the address of the property that secures the mortgage.

**Major Maine Tax Changes Applicable to Tax Years Beginning in 2016**

- **Tax rate schedules for tax years beginning in 2016**: The 0%, 6.5% and 7.95% tax rate brackets are replaced with 5.8%, 6.75% and 7.15% tax rate brackets. The rate brackets for single filers are increased by 150% for head of household filers and by 200% for married taxpayers filing joint returns and surviving spouses.
- **Greatly increased Standard deduction amount**: The Maine standard deduction amount is equal to $11,600 for individuals filing single and married persons filing separate returns; $17,400 for unmarried or legally separated individuals filing as heads of household; and $23,200 for married persons filing joint returns or surviving spouses. The additional standard deduction amount for age/blindness is equal to the additional federal standard deduction amount for age/blindness. For tax years beginning after 2016, all standard deduction amounts will be adjusted for inflation.
- **Military pension income deduction**: Benefits received under a military retirement plan, including survivor benefits, are fully exempt from Maine income tax.
- **Sales tax fairness income tax credit**: Low and middle income residents are allowed a refundable sales tax fairness credit. The credit may be claimed on Maine individual income tax returns. Income for purposes of the credit is equal to federal total income as reported on the individual's federal income tax return increased by nontaxable social security and railroad retirement benefits, tax exempt interest and certain business and capital losses. The amount of the base credit is $100 to $180, depending on the number of exemptions claimed on the taxpayer's return. The credit is phased out for taxpayers whose income exceeds $20,000 for taxpayers filing single, $30,000 for taxpayers filing as heads of household and $40,000 for taxpayers filing married joint returns.
- The following credits and deductions <u>are repealed</u> , except that unused credit amounts may be utilized to the fullest extent allowed by the carryforward provisions for each credit:
  - ✓ Jobs and investment tax credit
  - ✓ Family development account credit
  - ✓ Credit for employer-assisted day care
  - ✓ Credit for employer-provided long-term care benefits
  - ✓ High-technology investment tax credit
  - ✓ Credit for dependent health benefits
  - ✓ Quality child care investment credit
  - ✓ Credit for biofuel commercial production
  - ✓ Forest management planning credit (this credit does not have a carryforward provision)
  - ✓ Subtraction for long-term care premiums
  - ✓ Subtraction for contributions to 529 Plans
  - ✓ Enhanced Itemized deductions, charitable contributions - The provision of law previously enacted (PL 2013, c. 590) that allowed a taxpayer, for Maine itemized deductions, to claim charitable contributions in excess of the Maine itemized deductions cap for tax years beginning in 2016 and to

claim the total amount of charitable contributions included in federal itemized deductions for tax years beginning after 2016.

- **Educational opportunity tax credit (36 M.R.S. § 5217-D):** For tax years beginning on or after January 1, 2016, the Maine educational opportunity tax credit is expanded as follows:
  - ✓ Extends the credit to qualified individuals who obtain an associate degree or bachelor's degree after 2015 from a non-Maine community college, college or university,
  - ✓ Extends the credit to graduate degrees obtained from a Maine college or university after 2015;
  - ✓ Removes the requirement that a qualified individual maintain Maine residency while attending school;
  - ✓ Makes the credit refundable for all associate degrees;
  - ✓ Allows residents of Maine who are employed at least part time in a position on a vessel at sea to be eligible for the tax credit as long as all other program qualifications are met;
  - ✓ Allows a qualified individual who earned a bachelor's or associate degree from an accredited Maine community college, college or university after December 31, 2007 but before January 1, 2016 to be eligible for the educational opportunity tax credit regardless of the number of transfer credits earned at a non-Maine community college, college or university; and
  - ✓ Extends the credit available to employers to graduate degrees earned by qualified employees and by removing the principal cap (tax credit limitation) relative to qualified employees.
- **Child and dependent care credit**: The credit for child and dependent care expenses is *no longer refundable* for nonresident taxpayers.
- **Adult dependent care credit**: Eligible taxpayers are allowed to claim a tax credit equal to 25% of the applicable percentage of adult dependent care expenses paid for adult day care, hospice services and respite care during the taxable year to the extent the expenses are not used to calculate the federal child and dependent care credit. The credit is refundable up to $500. Restrictions apply both to the amount of expenses that may be used, and the credit allowed for part-year residents and nonresidents.
- **Earned income tax credit**: The earned income tax credit is fully refundable for Maine residents. The refundable credit is prorated for part-year residents.

## Tax News and Reminders for Businesses

**We can help prepare W-2 and 1099 Forms. Those needing to file these forms take note!** The Trade Preferences Extension Act of 2015 included a substantial increase in failure-to-file and late filing penalties, for information returns such as 1099 and W-2 forms filed after December 31, 2015, effectively doubling the penalties. We've been talking about the need to send 1099 forms for many years. The penalty under Section 6722 for not furnishing information returns to payees will increase to $250 per return, beginning with Forms 1099 required to be filed in January 2017. The amount of the penalty assessed may be reduced, depending on the reason for not filing on time, and how much time passes before the error is corrected. Penalty assessments for unintentional delinquencies, corrected in a timely manner, are reduced. The penalty for intentional disregard also increased, to $500 per return. Business tax forms have questions that must be answered, asking if you sent all required forms. If you do not file the required forms, the IRS may contact you and assess penalties.

**W-2 Form Deadline moved up in 2017:** The Consolidated Appropriations Act of 2016 moved the deadline for filing Form W-2 to January 31, whether paper or electronic filing. Companies were already required provide W-2s to their employees by January 31, but starting in 2017 (for the 2016 reporting year) the January 31 deadline also applies to W-2s and W-3s submitted to the Social Security Administration and the IRS.

Employers with payroll who rely on employees or payroll processors to handle the payroll duties should verify, often, that all payroll taxes have been remitted. Just the fact that the funds have been deducted from your bank account is not enough. Employers are ultimately liable for all payroll taxes until they are in the government's possession. Protect yourself and verify that all taxes have been paid to both the IRS and your State!

**Do you know?** In addition to tax preparation and advice and payroll services, we can provide help with QuickBooks and/or other recordkeeping setup and maintenance, provide refinancing and/or reverse mortgage ideas, review auto or truck purchase papers and HUD statements before you sign, and also help with business start-up plans, loans and business projections?

Check our website, [www.jackskehan.com](www.jackskehan.com), for tax developments occurring after this letter is sent to press. Also, we are on Facebook – and post hints and tax developments there as well. And if you get a chance, please 'Like' us on Facebook.

We hope you find this letter helpful as you prepare to see us in 2017. As always, call us for more information or for clarification of any tax matter. We thank you again for helping us have a very successful 2016 and we wish everyone a healthy and happy 2017.

Sincerely,

Jack and Judy

Jack and Judy

*If you want 2017 to be your year—*

*Don't sit on the couch and wait for it.*
*Go out. Make a change. Smile more.*
*Be excited. Do new things.*
*Throw away what you've been cluttering.*
*Unfollow negative people on social media.*
*Go to bed early. Wake up early. Be fierce.*
*Don't gossip. Show more gratitude.*
*Do things that challenge you. Be brave.*

--*From 'Life Learned Feelings'*