

## Important 2017 Year-End Tax Information

Dear Clients and Friends:

We know you are very busy, but please take a few moments to read this email to determine which portions apply to you or your business. Each tax season the same items change, get missed or are overlooked until it is very late in the preparation process. Hopefully, this letter will help you develop your own year-end checklist.

### 2018 Tax Season Start Date

The IRS currently has not announced a date when they expect to begin accepting 2017 tax returns. The IRS anticipates it will not be at a point to announce a filing season start date until later in the calendar year. You can stay in the loop with us by checking IRS new releases at the following link.

<https://www.irs.gov/newsroom/news-releases-for-current-month>

### Tax Return Filing Due Dates

2017 Forms **1099-MISC** and **W-2** will need to be filed **January 31, 2018** – this is the **same date that the forms must be provided to payees and employees.**

Below are the following 2017 Tax Return filing due dates for calendar year filers (December 31<sup>st</sup> year end):

Form Type	Due Date	Extended Due Date
<b>1065-Partnerships</b>	March 15 <sup>th</sup>	September 17 <sup>th</sup>
<b>1120S-S Corporations</b>	March 15 <sup>th</sup>	September 17 <sup>th</sup>
<b>1120-C Corporations</b>	April 17 <sup>th</sup>	October 15 <sup>th</sup>
<b>1040-Individuals</b>	April 17 <sup>th</sup>	October 15 <sup>th</sup>
<b>1041-Trust and Estates</b>	April 17 <sup>th</sup>	October 1 <sup>st</sup>
<b>990-Tax Exempt Org</b>	May 15 <sup>th</sup>	November 15 <sup>th</sup>
<b>FinCEN Form 114*</b>	April 17 <sup>th</sup>	October 15 <sup>th</sup>

\* **FinCEN Form 114** better known as the foreign bank account report (**FBAR**) must be filed to report certain financial interests in or signature authority over **foreign financial accounts**. FinCEN Form 114 is a calendar year report. It can **only be filed electronically** and must be filed through the **Bank Secrecy Act (BSA) E-Filing System**.

For fiscal year filers:

- Partnership and S Corporation tax returns will be due the 15th day of the third month after the end of their tax year.
- C Corporation tax returns will be due the 15th day of the fourth month after the end of the tax year.

If you any questions regarding the filing due dates, please feel free to contact us.

## Strategis Website and Client Portals

All clients have a secure portal for accessing their tax returns, filing instructions and individual return source documents. Your portal is still accessed from the **Client Center** which is now located between **Our Team** and **Contact** in **green text** on the right side of the banner at the top of the home page.

After clicking on the **Client Center** button select the **Client Login**. Logging into your portal is done by entering your **User name** which is your **email address** and your **Password** which is self-selected and then clicking the **Login** button.

If you have not done so please make sure you can access your portal and update your password. If you do not remember your password use the **Forgot Password?** button in the **Client Portal Login** screen to reset your password. If you experience any problems with your portal, please contact Karen Sanford at extension 103 or email her at [karens@strategiscpa.com](mailto:karens@strategiscpa.com).

## Credit/Debits Card Payments

Our website has an online payment feature that will allow you to pay invoices with your Debit or Credit card at your convenience 24/7. The **Pay Online** button is located on the right side of the banner at the top of the home page of our website.

## Zoom Video Meetings

Also located in the **Client Center** of our website is a button for **Zoom Video Meetings**. This is a simple tool to use and we find many of our clients enjoy using video meetings rather than phone calls or stopping by the office. It is nice to speak with you face to face from the convenience of your office or home. It saves travel time and also enables us to share our computer screen so you can review documents or software together with us as we speak. This is a tremendous increase in efficiency and most clients switch entirely to Zoom once they use it a couple of times. Please call us if you are interested in giving this a test drive to see how it works.

## Client Organizers

In 2018 our Client Organizers and the client copy of your tax return will again be delivered to you on your secure client portal. If you prefer that we mail a paper copy of your return to you, please call or email Karen at [karens@strategiscpa.com](mailto:karens@strategiscpa.com) and she will mark it in your file to make sure we provide you with a paper copy as well. We currently expect to print your organizer to your portal by Friday, January 5<sup>th</sup>. Be on the lookout for an email explaining this at that time.

## Retirement Accounts

The contribution limit for IRAs remains at \$5,500 in both 2017 and 2018, with an additional \$1,000 allowed for those 50 and over. In the year an individual attains age 70½, contributions to traditional IRAs are no longer permitted.

If you have a Simple IRA Plan, the annual deferral limit remains at \$12,500 in both 2017 and 2018. The catch-up contribution limit for ages 50 and over also remains at \$3,000. **Be sure that employee's that intend to match the limit have done so before year-end.** Also, be sure to double check the calculation of the employer 2% or 3% match.

If you are participating in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan, the contribution limit has increased from \$18,000 in 2017 to \$18,500 in 2018.

## Required Minimum Distributions from Retirement Accounts when you Reach Age 70 ½

You cannot keep funds in your retirement accounts indefinitely. You generally must begin taking withdrawals from your IRA or retirement plan account when you reach age 70½. [Roth IRAs](#) (click to follow link) do not require withdrawals until after the death of the owner.

The minimum amount you must withdraw from your account each year is called your **required minimum distribution** ("RMD"). You may withdraw more than the minimum required amount. Your withdrawals will be included in your taxable income except for any part that was taxed before (your basis) or that can be received tax-free (such as qualified distributions from designated Roth accounts). We recommend that rather than attempt to manually compute the amount of required distribution, you instead notify the custodian for each of your retirement accounts and request that they automatically distribute the RMD on a recurring basis so that the distribution is not inadvertently overlooked. There are significant penalties if the RMD is not made.

## Social Security

The social security wage base will increase from \$127,200 in 2017 to \$128,400 in 2018. The employee FICA tax rate will remain the same at 7.65% in 2017 and 2018 and the self-employed tax rate will remain the same at 15.3% in both 2017 and 2018. The earnings ceiling for social security in 2018 are as follows: Under full retirement age-will increase from \$1,410 in 2017 to \$1,420 in 2018; the year an individual reaches full retirement age-will increase from \$3,740 in 2017 to \$3,780 in 2018; and, no limit on earnings beginning the month an individual reaches full retirement (66 if born between 1943 and 1954). The earnings needed to earn one social security credit (quarter of coverage) will be \$1,300 in 2017 and increase to \$1,320 in 2018. Therefore, 2018 earnings of \$5,280 will earn four credits. **Forty credits are required to maximize social security benefits. This is important for spouses that work part-time in closely-held businesses.**

## Health Insurance

The self-employed health insurance deduction (which applies to 2% or more S corporation owners) is 100% deductible for 2017 for regular tax purposes. However, special reporting is mandatory on your Form W-2 in order to qualify for the deduction.

**If Strategis prepares your W-2's, you must provide us with the amount of health insurance premiums paid on your behalf by your S corporation by Friday, December 22, 2018, to insure the proper amount is reported on your 2017 Form W-2. If we do not prepare your W-2's and you use an outside vendor to prepare your payroll, you must provide this information to the Payroll vendor usually before the date the last payroll of the year is processed.**

**We recommend that you contact your payroll vendor directly and in writing to avoid additional payroll fees to correct this after your W-2's are prepared.**

## S Corporation Shareholder Reasonable Compensation

One area that continues to receive heightened IRS scrutiny is reasonable compensation for S corporation shareholders. S corporations must pay reasonable compensation to a shareholder-employee in return for services that the employee provides to the corporation before non-wage distributions may be made to the shareholder-employee. The amount of reasonable compensation will never exceed the amount received by the shareholder either directly or indirectly.

The instructions to the Form 1120S, U.S. Income Tax Return for an S Corporation, state "**Distributions and other payments by an S corporation to a corporate officer must be treated as wages to the extent the amounts are reasonable compensation for services rendered to the corporation.**"

Several court cases support the authority of the IRS to reclassify other forms of payments to a shareholder-employee as a wage expense and subject to [employment taxes](#).

## Filing 1099 Forms is Mandatory and Must Be Disclosed on your Business Return (IRS is now aggressively assessing penalties for late filing and failure to file 1099 Forms)

Any non-employee person (or business that is not a corporation) receiving a payment of \$600 or more from your business **should receive a Form 1099 from your business**. As a general rule, we recommend that you obtain a completed and signed Form W-9 Request for Taxpayer Identification Number and Certification **before** a payment for services is made. A link to this form and the Form W-4 Employee's Withholding Allowance Certificate is available from the **Client Resources/Client Forms** tab of our website at <https://www.strategiscpa.com/resources/client-forms>.

This is especially important, because all business tax returns now require management to indicate whether payments were made during the year that require Form 1099's to be filed. If this question is answered "Yes", the business must indicate whether they have filed or will file the required 1099 Forms by the due date. Answering the first question "Yes" and the second question "No" we believe, will significantly increase the risk of an IRS audit. We strongly encourage you file any required Form 1099's by the **January 31, 2018, deadline**. Please **contact us before year-end** if you need our assistance preparing the Forms 1096 and 1099.

***If you do not have complete and accurate names, addresses and Federal Identification Numbers for all subcontractors before year-end it is likely you will not be able to file your Forms 1099 by the January 31, 2018, due date. Contrary to the past, the IRS is aggressively assessing large penalties for failure to file and late filing of Forms 1099.***

The 1099 filing requirements are more expansive than most people think. For example, payments of \$600 or more to attorneys require a Form 1099 even if paid to a corporation. Additionally, rental payments of \$600 or more for office space also require filing a Form 1099.

## Employee Gifts, Bonuses and Miscellaneous Payments

***All gifts, bonus payments, trips, awards or other miscellaneous payments to employees in excess of \$25 must be treated as payroll and go through the payroll process.*** Normally, these types of payments are subject to Federal, State (if applicable) and Social Security and Medicare Tax withholding. Since it is normally not possible to withhold tax from non-cash payments, we must "gross-up" payroll by making

the net check equal to the amount of the non-cash payment. If you anticipate making bonus payments or non-cash payments please contact us before the payment is made so we can assist you. Otherwise, it may result in a penalty for depositing the required withholding tax late.

## Standard Mileage Rates

If you use a vehicle for business, **please record your odometer reading on December 31, 2017, and call us for an automobile worksheet, which you will need to complete in order to report your business miles driven.** The 2018 standard mileage rate for business miles driven is 54.5 cents per mile, up from 53.5 cents per mile in 2017. The 2018 standard mileage rate for medical and moving is 18 cents per mile up from 17 cents per mile in 2017. The 2018 standard mileage rate for miles driven in service to charitable organizations is 14 cents per mile which is the same as 2017.

If you plan to use your vehicle for business, we strongly recommend using one of the **mileage tracking apps** that are available on your smart phone. One app I looked at tracked your daily driving and then let you swipe the trips one direction for personal and the other for business. Notes can be added to the business trips to meet the IRS requirements.

## IRS Requires Written Policy to Expense Tangible Property Costing less than \$2,500

The IRS made substantial changes to the way repairs, maintenance and improvements must be accounted for beginning January 1, 2014. The net result was more stuff that many clients incorrectly expensed in the past as repairs is now required to be capitalized, especially on real property. However, beginning **January 1, 2016**, the IRS increased the capitalization limit to \$2,500, which means that each individual item with a purchase price of less than \$2,500 can be expensed. In order to do this, we recommend that each business prepare a written policy indicating the new limit is being adopted. A sample written **Capitalization Policy** which may be used to increase your capitalization limit to \$2,500 is available on our website at <https://www.strategiscpa.com/resources/client-forms>. Select **Capitalization Policy** from **Client Forms**.

If you plan to make substantial repairs and maintenance during 2018, please contact us before hand to make sure you are able to get the tax treatment that you are expecting.

## Section 179 Expense and Bonus Depreciation

IRC Section 179 allows a special depreciation deduction for equipment that normally must be capitalized and depreciated. Certain tangible personal property up to the Section 179 limit can normally be expensed in the year purchased rather than recovering the cost using depreciation over a period of years. Section 179 will now be indexed to inflation in \$10,000 increments. This will cause an increase in Section 179 deduction limit from \$500,000 in 2017 to \$510,000 in 2018. However, there is a spending cap of \$2,020,000 in 2017 and \$2,030,000 for 2018. This is the maximum amount that can be spent on equipment before the Section 179 deduction available to your business begins to be reduced dollar for dollar. The Section 179 deduction is limited to the taxpayer's aggregate taxable income derived from active conduct of all trades or businesses. Generally, rental activities do not qualify to take advantage of Section 179.

After Section 179, **50% Bonus Depreciation** is available on **new assets** placed in service **before 2020**. Businesses of all sizes will be able to depreciate 50 percent of the cost of equipment acquired and put in

service during 2015, 2016 and 2017. Then bonus depreciation will phase down to 40 percent in 2018 and 30 percent in 2019.

## Inventory

If you sell merchandise in your business, or file your business tax return using the accrual method of accounting (rather than the cash method of accounting), you must prepare a schedule of inventory, accounts receivable and accounts payable on hand as of December 31, 2017. We would be happy to answer any questions you have regarding what information is required and how to handle any or all of these matters.

## Workers' Compensation Insurance

Businesses with employees are required by law to carry workers' compensation insurance. The only exception is for non-construction businesses with less than four employees. All construction businesses must have workers' compensation coverage, even with only one employee.

## Unemployment and Withholding Tax Notices

If you have employees, you should receive your new Florida unemployment tax rate for 2018, as well as your Federal withholding tax deposit requirements during the first week of December 2017. Please fax us a copy as soon as you receive them. Call us immediately, if you do not receive this in the mail. If your payroll tax deposits exceeded \$50,000 during the period 07/01/2016–06/30/2017, you will be required to make your 2017 tax deposits **within three business days of payroll rather than by the 15<sup>th</sup> of the next month.** Late deposits result in huge penalties.

## EFTPS

Since 2011, employment tax deposits may no longer be deposited with your local bank. All Federal tax deposits including unemployment (Form 940) must now be made using the Electronic Federal Tax Payment System (EFTPS) <http://www.irs.gov/uac/EFTPS:-The-Electronic-Federal-Tax-Payment-System>. Employers with quarterly payroll tax amounts below \$2,500 per quarter may remit employment taxes with their Form 941 or Form 944. However, we recommend that all clients regardless of amount utilize the EFTPS system. **It takes several weeks to enroll, and it is important to be currently enrolled before the need to use it arises.** Payment of your individual estimated tax payments can also be scheduled and paid electronically as well. Please call our office if you would like assistance setting this up.

## Florida New Hire Form

If you hire or re-hire employees, you are required to report certain information about the employee to the State Directory of New Hires within 20 days of hiring that employee. You can now file this report online or download a copy of the form to fax or mail back to the state. To get more information, visit the website at <https://newhire.state.fl.us/fl-newhire/>.

## Record Maintenance

Remember it is your responsibility to keep bank statements; cancelled checks; credit card statements and receipts; and, all other business and tax receipts for up to seven years to substantiate business income and deductions. You must also have a copy on file of IRS Forms W-4 and I-9 for each employee. If you have unreimbursed business expenses, you must submit these for reimbursement **before** the end of the year to deduct them on your business tax return. If you prepare your business tax return using the cash basis of

accounting, you must actually pay bills with a check during 2017 for the deduction to be allowed in 2017. However, you should not reduce your cash balance below zero if you do not have adequate cash to cover your bills.

## Florida Sales and Use Tax

Many businesses that don't collect and remit Florida sales tax are surprised when they receive an audit notice from the Florida Department of Revenue. This is because the State audits businesses to make sure they have proof that sales tax was paid on all of their office furniture and equipment, as well as other fixed assets that were purchased for use within Florida. We recommend that you maintain a file containing a copy of all purchase invoices for every business asset you own that costs more than \$500. **Please contact us if you would like assistance submitting use tax on any out-of-state purchases that did not collect Florida sales tax.**

## Data Security and Password Management Software

If you use a computer in your business and you want to stay in business, you need to maintain frequent backups of your computer data. A good rule of thumb about how often to backup, is, only backup what you don't want to recreate from scratch. Over the past few years several of our clients have had computers stolen or unexpectedly fail, with catastrophic data losses. By hosting your accounting software in the cloud, many of these risks can be mitigated.

If you are not currently using Password Management Software we would definitely recommend investigating it. Click here to link to an article dated November 7, 2017, from **PC Magazine** of [The Best Password Managers of 2017](#). We have tested **Dashlane** and have clients using **LastPass**. The cost for Dashlane was approximately \$39 for a year single license. Based on the time savings alone opening password protected web pages we expect to save several times the price each year. This software works on browser based applications but most does not work **within software** that is on your computer.

## QuickBooks Online (QBO) and Hosted QuickBooks

As technology has continued to improve over the past few years, we have moved many of our business clients accounting to a hosted environment. During this time, QuickBooks has continued to focus most of their resources on improving **QBO** rather than their desktop software version. For many of our new and existing service based clients, **QBO** is our recommended accounting solution. As we continue to move forward, our goal is to provide our clients with increased data security and flexibility in gathering and accessing your information anytime from anywhere.

## BOSS (Back Office Support System)

With the increased administrative burden of running a business, many business owners are looking for opportunities to outsource services that don't fall within their core competency. **BOSS™** is an all-inclusive solution that offers businesses relief from the day-to-day accounting hassles while providing 24/7 access to financial data. As your trusted advisor, we pay your bills, record deposits, prepare payroll and payroll tax returns, furnish financial statements, produce W-2's and 1099's, prepare tax returns and supply valuable financial and tax advice throughout the year. All activity is completed online via a technologically advanced SaaS-based platform—so communication and document exchange is in real-time.

If you have an interest in more information regarding **QBO** or **BOSS™** check out the solutions section of our website at <https://strategiscpa.com/solutions/> or call our office to discuss your specific circumstances.

## **End of Year Review**

This is also a good time to evaluate your family's financial and estate plans. Please take some time before the end of the year to determine if your disability and life insurance coverage, retirement accounts and wills/trusts are adequate to provide for your family's current and future needs. We will be happy to discuss any of these issues with you.

Hopefully, this will help you with your end of year planning. As in the past, we will make every effort to begin business tax returns during the month of January. Please deliver your information to us as early in January as possible. Please call us if you have any questions or would like to schedule a meeting or phone conference before the end of the year. **Have a great holiday season!**

Sincerely,

**The Strategis CPAs & Consultants Team**