



The Accountants Group, Inc.

Accountants &
Tax Consultants

January 2018

Dear Taxpayer:

First and foremost - all of the "stuff" that has been going on in Congress and the proposed Tax legislation will have no effect on your 2017 income taxes. The final bill was still being debated when this letter was composed but nothing in the proposed legislation would affect 2017. Our only hope is the final bill actually does something positive for the average taxpayer and small businesses.

How is the new tax law going to affect your taxes is anyone's guess. Given the track record of congress it will actually cost middle income individuals and small business' money and save the "big" guys taxes.

One thing you should be aware of regarding the new legislation is both the House & Senate are proposing a change in the holding period to qualify for the \$250K/person exclusion of gain from the sale of your principal residence. The old rule was 2 of 5 years, the new rule is 5 of 8 years. To avoid paying taxes on the sale of your residence you should keep track of the original cost and all improvements to your residence (keep copies of closing statements and invoices for all improvements).

Please check out our website (www.AccountantsGroup.com) for our Newsletter, Directions, Engagement Letters, Vehicle Information Summary, Summary of Recordkeeping Requirements, Referrals and other useful information and links.

We occasionally send out emails and letters to advise our clients of things that may affect them. Please make sure we have your current email and mailing address.

Our annual list of things to be aware of:

1. **Illinois tax rates:** Illinois has raised its personal income tax rate from 3.75% to 4.95% effective 7/1/2017. You are allowed to use an average rate or split your income between the two periods. Please let us know if you had substantial additional income during the first six months of this year.
2. **Affordable Care Act (ACA or Obamacare):** Is still in effect for 2017 (& maybe 2018) and there are quite a few things that you need to be aware of:

- Should you qualify for a subsidy it is only available if you purchase your insurance through an exchange.

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determined when we prepare your 2016 income tax return and any amount that was used to pay for insurance will be adjusted to actual, causing you to receive a refund or owe additional taxes.

- You should notify the exchange immediately when there is a change in your household income or status.
- The credit is based on your Household Income. Should you qualify for the health insurance credit, we will need to know the income of each person that is a dependent or that is covered by your health insurance. We will advise you what is needed when we prepare your tax return.
- Since most of the available plans are High Deductible plans they will allow you to qualify to set up a Health Savings Account (HSA). You may find it cheaper to take a High Deductible plan and set up a HSA. Please contact us if you would like assistance in making this decision.
- You are required to have health insurance coverage and will be subject to a penalty unless you qualify for an exemption. There are some income exemptions that we can calculate when we prepare your tax return. However, the other exemptions must be applied for at www.HealthCare.Gov and are only available if you have a certificate number that is issued by this website. We are mentioning this because we will not be able to transmit your return if you qualify for an exemption and don't have an Exemption Certificate Number.

They are estimating it will take several weeks to process exemption applications, so please apply for the exemption now so you will have the certificate when we prepare your return. But don't wait to make an appointment, we can collect all of your other data and add the exemption certificate number once you obtain it.

- We will be asking questions about your health insurance coverage. Please be prepared to tell us, for yourself, your spouse and each dependent, which months of the year you had insurance coverage.
- 2. **Penalty for not having Health Insurance** is complicated to compute but you need to know it is going up to a maximum of 2.5% of your income in 2016. The exchanges should be offering insurance for small businesses as well as individuals. Illinois residents contact GetCoveredIllinois.gov.
- 3. **Health Savings Account (HSA) limits:** For 2016 they will be \$6,750 for family coverage and \$3,350 for self only coverage. Individuals 55 & over can add \$1,000.. You cannot have a HSA once you start on Medicare.
- 4. **Tuition credits and deductions:** We are required to have the form 1098T that each school issues to support the entries for education expenses. Please be sure to obtain a copy of this form and include it with your tax preparation data. We have noted that many schools do not mail this form; instead, they make it available through the students on line account. When this occurs you (or your dependent) will need to go online and print the form.

Additionally, we will need to know the amount that was actually paid to the school during 2016. This includes amounts paid using student loans and payments made by others (grandparents, ex-spouses, etc.)

- 5. **Delayed processing of returns.** For all returns showing Earned Income tax credits, Child tax credits or Education Credits the IRS will not begin processing the return until February 15, 2017 and the first refunds will probably not be issued until the end of the month.
- 6. **Please do not wait to schedule your appointment.** If you have not received all of your tax documents or if the IRS announces they are delaying the processing of returns please

call and schedule an appointment anyway. We can prepare your return and will transmit it as soon as you are able to provide the missing data.

7. **The standard mileage rate** for the business use of your automobile for 2016 is 54.0¢ per mile. The 2017 rate had not been announced when this letter was composed.
8. **2017/2016 employee retirement plan contribution limits have not changed:**

	To Age 49	50 & Over
IRA (Roth and 2017 Traditional) 2016	\$ 5,500	\$ 6,500
401(k) & 403(b) 2017 2016	\$ 18,000	\$ 24,000
SIMPLE IRA 2017 2016	\$ 12,500	\$ 15,500

9. **Energy Credit:** There is still a limited credit available if you installed energy-efficient windows, doors, central air conditioners, furnaces or insulation. Please be sure to advise us if you purchased any of these items that are energy star compliant.
10. **Per Diem rates for transportation workers** for 2016 is \$63/day. Meals for transportation workers are 80% deductible.

11. **Roth IRA:** You may make contributions to a Roth IRA as long and your Adjusted Gross Income (AGI) is within the following parameters:

If your 2016 filing status is...	And your modified AGI is...	Then you can contribute...
married filing jointly or qualifying widow(er)	< \$184,000	up to the <u>limit</u>
	≥ \$184,000 but < \$194,000	a reduced amount
	≥ \$194,000	zero
married filing separately and you lived with your spouse at any time during the year	< \$10,000	a reduced amount
	≥ \$10,000	zero
single, head of household, or married filing separately and you did not live with your spouse at any time during the year	< \$117,000	up to the <u>limit</u>
	≥ \$117,000 but < \$132,000	a reduced amount
	≥ \$132,000	zero

12. **Charitable Contributions:** You are required to have proof of payment for all cash contributions, a log or estimate will not be accepted by the IRS. For contributions up to \$250, you need proof of payment (cancelled check, receipt, credit card charge, etc). For contributions of \$250 and over, you must have a "qualified" receipt from the charity in your possession **prior to filing your tax return.** A receipt for any contribution is always the best supporting document. A "Qualified Receipt" must have a statement that the charity is a Qualified 501(c)(3) organization and it must specify the value of anything you received for the contribution or have a statement to the effect that you did not receive anything other than intangible religious benefits . The problem is: if

the receipt is incorrect once your return is filed you cannot obtain a corrected receipt, and the IRS has shown no tolerance in accepting receipts that are not 100% correct.

For non-cash contributions, the quality of the merchandise must be at least "good" and you need a receipt from the charity (without values).

For non-cash contributions, we recommend you take a date stamped photo of the property and make a list of what was given. The list should contain a description, date of purchase, cost, condition and an estimate of the current value. Items valued at more than \$5,000, determined "in the aggregate" (for example, three bags of designer clothes valued at \$2,000 each and given to different charities would count as more than \$5,000), need an appraisal.

Publicly traded securities do not require an appraisal but you must prove the value on the date of the contribution and we will need the date the stock was acquired and the cost. You should only donate securities that you have owned more than one year.

Please contact us before making gifts of \$5,000 or more so we can explain exactly what you need to do.

Salvation Army (<https://satruck.org/Home/DonationValueGuide>) and Goodwill Industries (https://www.goodwill.org/wp-content/uploads/2010/12/Donation_Valuation_Guide.pdf) maintain guides that you can use to determine the value of the property.

13. **Home office:** You should take a date stamped photo of your home office area to prove that it is used exclusively for business. Please note, this does not have to be a segregated room, it can be a desk or other work area but it must be used **exclusively and regularly** for business. You should maintain a log that shows the date, hours worked and what you did in your office. "*Regularly*" is not fully defined but it seems to be at least ten hours per week.

14. **Foreign Financial Accounts:** The IRS is getting extremely aggressive in this area and there are two separate forms that you may be required to file. One, if you have amounts in Foreign Financial Accounts that exceed \$10,000. Another Form is required if, for married taxpayers filing jointly, the balance at any time during the year was more than \$150,000 or if the balance at the end of the year was more than \$100,000 (one-half of these amounts for the other filing statuses). ***THIS IS SERIOUS;*** the penalty for not filing these returns can be as high as 50% of the balance in the account & in some cases up to \$100,000 no matter how much is in the account.

You do not need to disclose the ownership of foreign stocks, bonds, etc that are held by a U.S. Financial institution (your broker, United States based retirement plans or mutual funds).

You could have a problem if you have a foreign trust, foreign investment account, own stock in a foreign company, participate in a foreign retirement plan, have signature authority over a foreign account (even if the money in the account is not yours) or, own a partnership or LLC that has foreign investments.

The IRS Form 8938 and Department of Treasury FBAR (FinCEN Form 114) are now both due April 15th. The FinCEN Form 114 has a separate filing requirement and is not a part of your regular tax return or our fee for preparing your income tax return.

15. **Records:** Detailed instructions regarding record keeping are available at www.IRS.gov . Look for Publication: 334, Tax Guide for Small Businesses; 463 Travel, Entertaining, Gifts and Car Expenses; 535, Business Expenses; 552, Record Keeping, Individuals. We have also published a limited explanation of what records you need to keep on our web site (www.AccountantsGroup.com).

We cannot stress the need for proper records enough; if you get audited and do not have the appropriate logs, receipts etc, you will probably lose the deduction and may be subject to penalties.

16. **Audits:** The IRS's computer system is comparing information returns (form: W-2, 1095A, 1098, 1099, 1098-T, etc.) to income tax returns. They are also using the system to analyze returns to see if the return "makes sense" based on the information from the information returns and the data shown on the tax return.

We mention this because there is a much higher likelihood that you will get a letter from the IRS questioning something on your return. Should this happen, please contact us immediately, we feel it is better if we at least review the correspondence before a response is given to the IRS (we generally prefer to actually provide the response and typically do not charge for this service).

17. **Mortgage Interest:** You are allowed to deduct the interest on mortgages (maximum of \$1,000,000 in mortgage balance) used to acquire or substantially remodel up to two homes plus the interest on home equity loans up to \$100,000. The issue is, when you refinance your residence or take a home equity loan, any cash you take out for things other than remodeling counts towards the equity loan limit of \$100,000, and the interest on debt over this limit is not deductible as mortgage interest. You may be able to deduct the interest if the money was used to purchase a second residence, finance a business or to make investments, but you need to be able to prove the funds were used for these purposes.
18. **Illinois Education deductions** are available for up to \$10,000 per taxpayer, per year that is contributed to an Illinois S529 Education Savings Plan (e.g. three contributions of \$10,000 each to Illinois S529 plans on a joint return gives you a \$20,000 deduction). Our investment advisors can assist you

in selecting a plan that meets your investment objectives. Something to consider, if you have a child in an Illinois school but do not have money in a Illinois §529 plan, set up a Illinois Bright Start plan, fund it and immediately transfer the money to pay tuition, this will generate an Illinois Income tax deduction.

19. **Gambling Winnings:** The IRS is taking the position that gambling losses can only offset gambling winning calculated, basically, on a daily basis. You are required to maintain a log that shows, on a daily basis, your personal net gambling winnings and losses. If you use a player's card the casino probably keeps track of this for you and will, hopefully, provide the data. A potential problem is the IRS can subpoena the information from the casino to verify your log.

Like everything else this is a greatly simplified version of the rules. Please contact us if you have any significant gambling activity.

20. **Scams:** The IRS does not have your email address and will never contact you via email. Taxpayers are getting emails that indicate problems with a return and ask for personal data to "fix" the problem. These are scams. Forward the email to phishing@irs.gov and delete it.

This is equally true for emails that you may receive from the state.

Harassing phone calls & emails from the IRS are a scam. We have had quite a few clients contact us about phone calls and/or email they receive from persons that identify themselves as IRS agents and threaten the taxpayer with jail, seizing bank accounts and other bad things unless they pay the money they owe right away. Often these taxpayers do not owe anything, and the amount the person wants to collect is relatively small. Should you get one of these calls and actually owe the IRS money call 800.829.1040 or the phone number shown on notices you have received prior to

the call or email. Call 800.366.4484 to report the contact if you do not owe the IRS anything. You can find additional information at <http://www.irs.gov/uac/Newsroom/IRS-Reiterates-Warning-of-Pervasive-Telephone-Scam>.

21. **Identity Theft:** There is a new IRS Form 14039 that you are supposed to file if your identity is stolen. Please contact us if you suspect you have been a victim of identity theft and need assistance preparing this form or have questions about what to do.
22. **Earned Income Credit and Child Tax Credit:** Apparently to prevent the abuse of these credits the IRS has imposed onerous rules, regulations and potentially exorbitant penalties on preparers. Therefore, in addition to the normal questions we ask about whom a child resides with and their income, we are required to see something that proves the child lives with you (school records, medical statements, day care records, a statement from your landlord, etc.) so please bring at least one of these documents so we can make a copy of it.
23. **Cancellation of Debt:** You may have to report the reduction or cancellation of debt as income. Please advise us if you renegotiated or had any credit card or loan balances cancelled or reduced in 2016. If you find yourself in financial difficulty and are contemplating negotiating with credit card companies and/or filing for bankruptcy call us first. There can be serious income tax consequences from these actions, and you should be aware of them prior to negotiating a settlement.
24. **Hobbies:** Do you operate a home based business such as Mary Kay or Amway? Or have a business that consistently shows a loss? The IRS likes to classify these businesses as a Hobby which causes disastrous results on your income tax return. Should this happen to you the gross income is added to your adjusted gross income (and for Illinois residents, becomes subject to Illinois income tax) and the expenses become

Miscellaneous Itemized deductions which are not fully deductible and may cause you to pay Alternative Minimum Tax.

You are responsible for proving that the business is entered into for a profit. IRS has repeatedly ruled that home based businesses and businesses that consistently show a loss are hobbies. You prove this is a bonafide business by maintaining business records such as a business checking account, mileage log, home office use log, consulting with advisors regarding how to make this a successful business, business insurance policy, separate phone number, etc. and keeping records of all of this. There is no guarantee here, the IRS has the last say and there is no definitive definition of what constitutes a "business". Refer to www.irs.gov/irs/article/0,,id=186056,00.html for a discussion of this issue.

25. **Estate & Gift Taxes:** The exclusion from Gift and Estate taxes is, per taxpayer, \$5,490,000 for 2017 and \$5,450,000 for 2016. This exclusion is now transferrable to a surviving spouse. Please contact us if your spouse died so we may advise you whether or not to file an estate return for them.

The annual Gift Tax exclusion is scheduled to stay at \$14,000 for 2016 & 2017.

We offer Estate planning consulting although we do not prepare the documents. We do prepare Estate and Gift tax returns. Should you like to make use of our expertise in preparing these return please advise your heirs/trustee's and attorney of your preference.

26. **Health Insurance Expense:** If you are the owner of a company or a sole proprietorship business, it is important that the business pay the cost of the health insurance. Should this be deducted from a personal account or you inadvertently pay it with a personal check you should have the business reimburse you before the end of the year.

27. **Business owners** with employees may not be able to deduct the cost of health insurance. This is relatively complicated so you should contact us to discuss your specific situation.
28. **Medical Expenses for non-dependants:** You may be entitled to deduct long-term care insurance and other medical expenses incurred by non-dependants (think parents) that you may not claim as dependants. Please discuss this potential tax deduction with us if you are providing more than one-half of your parents support and are unable to claim them as a dependant due to their income.
29. **The Social Security** wage base for 2017 is \$127,200 versus \$118,500 for 2016.
30. **Income Tax Refunds:** IRS's goal is to issue 2016 refunds within 21 days of when the return is filed; however, it could take months to get your money. The IRS has initiated security procedures used during the processing of returns (and is continually adjusting them) to prevent the acceptance of fraudulently filed income tax returns. These procedures slow the process of issuing refunds. If you have the misfortune of having your return pulled out of the system, it can take several months for the IRS to approve the refund. If you are unlucky enough to have someone use your Social Security number on a tax return it could take a year or more to obtain your refund.

Illinois has been holding large refunds (over \$1,000) until they have the money to pay them.

You can avoid issues with this by adjusting your withholding so you do not get a large refund.

31. **Cut off dates:** While we endeavor to finish all of the returns that we receive before the 4/15 deadline by the deadline we are finding that more and more returns require additional time to prepare. Please be advised that we may not be able to complete returns received after 3/15 by the 4/15 deadline.

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Should this occur we will automatically extend your return and finish it as soon as possible after 4/18.

Our advice is to make your appointment or mail us your data early. We can always add missing information and process the return after the appointment and still make the deadline.

Accountants Group Address: We have closed our P.O. Box. Please send all mail to:

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Buffalo Grove, IL 60089

The Post Office has advised us that they may stop giving us mail directed to the Post Office Boxes so please update your records to reflect this change.

Referrals for Health/disability/auto/home insurance, and investments: We have several clients that we can refer to help you with these items please see our web site for names and contact information. Please feel free to contact us for the name of someone that we feel would work best with you.

Taxes by mail: We have specialized in providing mail-in tax service for many years. We have the ability to prepare all state income tax returns and are able to provide our clients with our expertise and experience by email and over the phone. Please contact Tracey (at extension 100 or Tracey@AccountantsGroup.com) for an organizer or with questions regarding what documents to send us copies of.

Tax Organizer: We have an organizer available (for existing clients) that shows last year's data and may assist you with gathering your data for the current year. If you feel this would assist you, please contact Tracey at extension 100 or Tracey@AccountantsGroup.com.

We will be in Barrington and Burr Ridge again this year. Please call our office early because appointment times at these locations seem to fill up quickly.

Referrals: Our business grows through the recommendations of satisfied clients. Assuming you are happy with our service and expertise we will appreciate you referring us to anyone that needs assistance with their

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accounting, taxes or finances. Should you be unhappy for any reason we will appreciate it if you would let us know.

Thank you: We appreciated the opportunity to assist you with your taxes last year and are looking forward to working with you again this year.

Sincerely,
The Accountants Group, Inc.

Jeff, Aaron, & Chuck

IRS Regulations define specific requirements that we must adhere to in order to provide advice that is to be considered federal tax advice for the purposes of avoiding penalties that the IRS might seek to impose. THIS CORRESPONDENCE (and any attachments, enclosures or other accompanying materials), IS SPECIFICALLY INTENDED TO NOT QUALIFY AS FEDERAL TAX ADVICE AND IT SHOULD NOT BE RELIED ON TO AVOID IRS PENALTIES. Specific guidance regarding our providing federal tax advice is explained in our engagement letter.