

BOTTOM LINE



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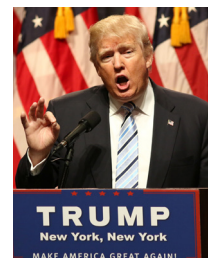
Your taxes and the Trump Effect

What do your tax professionals at H&S think will happen to taxes this year? **Here's our top ten predictions:**

1. Tax changes will happen and most likely be retroactive to 1/1/17. With the Republicans controlling all three branches of government, we feel quite confident in this overall prediction.
2. Top personal tax brackets will go down, reducing tax significantly for higher income earners.
3. There will be fewer (likely three) than our current seven bracket system for individuals.
4. The Alternative Minimum Tax will be eliminated, another nice savings for those higher income earners.
5. Net Investment Income Tax will also be repealed – ditto for higher income folks.
6. Like personal tax brackets, we expect top corporate brackets to go down. (This may make C Corporations more attractive, especially

in combination with Code Section 1202 – see article on reverse)

7. Standard deductions should increase and reduce the advantages to “itemizing” one’s deductions.
8. The Estate Tax will be eliminated, making 2017 a great year to die, we guess?!
9. The Affordable Care Act will be repealed, but replacement will not happen for quite some time, making for much uncertainty in the health care area.



10. Our last prediction is that the only certainty of the future is its uncertainty, and thus these are merely our best guesses right now. As events unfold and actual provisions are enacted, you can count on H&S to keep you informed.

Individual Tax Provisions

And now for changes we know for certain. 2016 ushered in the Protecting Americans from Tax Hikes (PATH) Act.

Education

The American Opportunity Credit, which provides up to \$2,500 per year in tax credits for the first four years of higher education expenses, has now been made permanent. The credit is still subject to income level phase outs, MFJ: \$160,000 - \$180,000 and Single: \$80,000 - \$90,000.



It is important that we receive form 1098-T from the college, so if that is being sent to your son or daughter, please obtain it for your tax filing.

Qualified expenses include tuition and fees, course-related books, supplies and equipment, student activity and athletic fees.

Tax Tip: The credit can be claimed even if monies are borrowed to pay the tuition/expenses.

Educator Expenses

The \$250 above-the-line deduction for unreimbursed out-of-pocket classroom expenses of teachers (K-12), counselors, principals or aides has not only been made permanent, but will also be indexed for inflation in the future.

State and Local General Sales Tax Deduction

Tax Tip: This provision is most helpful for retirees.

In lieu of claiming a deduction for state and local income taxes, taxpayers may choose to claim a deduction for general sales tax. This benefit has been made permanent.

Charitable Contributions of IRA Distributions

*Another tax provision targeting retirees

IRA Distributions made directly to qualified charities are excluded from taxable income if the IRA owner is at least 70 ½.

While this does not provide a double benefit (i.e. exclusion from income and tax deduction), it is most useful to those who do not itemize or still pay state income taxes. Once again, this is a permanent tax change!

Important Facts and Figures

	2016	2017
Standard Mileage Rate	.54	.535
Social Security Wage Base	\$118,500	\$127,200
Earnings Limit for SS recipients under age 66	\$15,720	\$16,920
Tax Free Gift Per Person	\$14,000	\$14,000
Tax Free Estate: Individual	\$5,450,000	\$5,490,000
Married Couple	\$10,900,000	\$10,980,000
IRA Under 50	\$5,500	\$5,500
50 or Older	\$6,500	\$6,500
SIMPLE Under 50	\$12,500	\$12,500
50 or Older	\$15,500	\$15,500
401k Under 50	\$18,000	\$18,000
50 or Older	\$24,000	\$24,000
HSA Individual	\$3,350	\$3,400
55 or Older	\$4,350	\$4,400
HSA Family	\$6,750	\$6,750
55 or Older	\$7,750	\$7,750





Business Tax Provisions


Affordable Care Act (ACA)

Like we mentioned in our predictions, a likely repeal here with long-term replacement, so continued changes ahead.

Here are some things we know for certain:

 If you are a large employer (over 50 FTE's), the ACA applies to you and your employees right now.

 Large employers must file forms 1095 for 2016. The forms are due to employees by March 2nd and to the IRS by February 28 (paper) and March 31 (electronic)

 21st Century Cures Act – President Obama signed this act into law on December 13. Beginning 1/1/2017, employers with less than 50 FTEs can reimburse employees for their medical expenses tax free. Reimbursements can include health insurance premiums that are paid with after-tax dollars (that is, premiums not paid through a pre-tax salary reduction arrangement or premiums subsidized with SHOP Insurance tax credits).

Bonus Depreciation / 179 Write-Offs / Qualified Real Estate Write-Offs

Bonus Depreciation

While Congress did not choose to make bonus depreciation permanent like they did for 179 expensing, they did extend bonus depreciation through 2019.

Unlike Expensing under code section 179, bonus depreciation may be claimed even if assets purchased exceed \$2 million and it is not subject to a net income limitation. However, qualifying assets must be new as opposed to 179, which allows used asset deductions.



Expensing / 179 Deductions

No longer do we need to wait each year to find out how much we can claim for immediate write-off on equipment purchased during the year... Congress has set the limit at \$500,000; made it permanent, and allowed it to be adjusted annually for inflation! Section 179 Depreciation is limited annually to a net business income limitation.

Qualified Leasehold Improvement Property / Qualified Restaurant Property / Qualified Retail Improvement Property

While business real estate (other than land) is generally written off over 39 years, property qualifying in this area may be written off over 15 years. This short depreciation period was made permanent! And that's not all...

You can even write-off, under the 179 rules, qualifying expenditures up to \$250,000 in 2015. In 2016 this amount moves to \$500,000 and even includes air conditioning and heating units AND is made permanent in the tax code! And saving the biggest real estate provision for last:

For tax years 2016-2019, real estate improvement expenditures made to a building's interior (not for enlargements, elevators or escalators or the structural framework of the building) are allowable for bonus depreciation irrespective of any lease arrangement or 3-year placed-in-service rule.

Highway Act

So what does a highway bill have to do with taxes, you say... Well, the Surface Transportation and Veterans Health Care Choice Improvement Act of 2015 changed some business tax filing due dates. For 2016 returns to be filed in 2017: C-Corporations: Old 3/15, New 4/15 S-Corporations: Old 3/15, New 3/15 (no change), Partnerships: Old 4/15, New 3/15. Of course extensions are still available.

1202 Stock



This is a tax provision that has had little use due to its annual "sunset" and late action by Congress to extend. But no more! Congress has made the IRC 1202 permanent. And here's the big attraction:

Investors/owners of qualified small business stock ("QSBS") issued after 9/28/10 may exclude 100% of their gains from the sale of the stock up to \$10 million per shareholders or 10 times one's basis.

The business must be operated as a C Corporation and immediately before and after the stock issuance must have gross assets less than \$50 million (can later exceed). Certain businesses do not qualify, such as professional service organizations, hotels and restaurants, banking and farming.

As mentioned earlier, operating as a C-Corporation may be much more attractive if corporate tax brackets are reduced. When combined with Code Section 1202 tax-free sale, this tax structure may prove to be a HUGE tax savings vehicle.

Minimum Wage - Michigan

Effective January 1, 2017, the minimum wage in Michigan increased from \$8.50 to \$8.90. It is scheduled to increase again on 1/1/18 to \$9.25. Newly-employed teens between 16 and 19 can be paid \$4.25/hour for the first 90 days of employment.



Tipped employee minimum wage changed from \$3.23 to \$3.38 on 1/1/17. Tipped employees must make \$8.90/hour with tips and regular wages taken into account.



I'll have a Slurpee with my 1040!

Believe it or not, beginning this year taxpayers who don't have a bank account or credit card may pay their taxes in cash at 7,000 participating 7-Eleven stores.

Questions & Concerns

If you have any questions about tax revisions, please contact your H&S tax professional.

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