December Monthly Newsletter 2016

Important reminders

- December 15 – Due date for calendar-year corporations to pay the last installment of 2016 estimated income tax.
- December 31 – Deadline to complete 2016 tax-free gifts of up to $14,000 per recipient.
- December 31 – Deadline for paying expenses you want to be able to deduct on your 2016 income tax return.

Be prepared for a higher social security wage base in 2017

For 2017, the wage base for withholding social security tax from wages has increased to $127,200, up from $118,500 in 2016. The "wage base" is the amount of wages on which employers and employees must pay the 6.2% social security tax. The increased wage base means an additional $8,700 of your income is taxed.

The wage base does not affect the 1.45% Medicare payroll tax. Medicare tax is assessed on all wages and net income from self-employment, including amounts above the base. The 0.9% Additional Medicare Tax is not affected either. That tax applies to your compensation in excess of $250,000 when you're married filing jointly ($200,000 when you're single).

The federal payroll tax rate for employers and employees remains 7.65%, with social security tax withheld and paid at 6.2%, and Medicare tax withheld and paid at 1.45%.

Please contact us for more information.

Check your basis in your S corporation before the end of the year

Losses can be hard to take – so if you think your S corporation will show a loss for 2016, now's the time to plan to make sure you'll get the full tax benefit.

The problem. The amount of the business loss you can deduct on your individual income tax return is limited to your basis in your S corporation stock and certain corporate debt. This is true even if the loss reported to you on Schedule K-1 is greater than your basis.

Here's how basis works. Typically, stock basis in an S corporation begins with the capital contribution you make to get the company started. Note that when you receive stock as a gift, an inheritance, or in place of compensation, your initial basis is calculated differently.

At the end of each taxable year, your stock basis is adjusted to reflect your business's operating results. Taxable income increases your basis, while losses reduce it. Basis is also increased by capital you put into your company and reduced by amounts you withdraw, such as distributions.

After your stock basis reaches zero, you may be able to deduct additional losses, up to the extent of your debt basis. That's the basis you have in loans you make to your company. However, once your stock and debt basis are both reduced to zero, losses incurred are suspended, which means you get no current tax benefit. You can generally take suspended losses in future years, when you again have basis.

The solution. You can increase your basis – and your ability to take losses – by adding capital or making loans to your business.

Please call to discuss how basis affects your individual income tax return. We can guide you through the rules.

No change to nanny tax threshold

The social security coverage threshold for domestic employees, including nannies, will remain at $2,000 for 2017, the same as the 2016 threshold. If your household workers earn less than $2,000, you do not have to pay social security or Medicare taxes on wages paid to those employees. When you pay your household employees more than the threshold, you're required to pay social security tax of 6.2% and Medicare tax of 1.45%. The $2,000 threshold applies separately to each employee.

Are you up-to-date on the tax rules affecting your 2016 return?

Here's a quick review of some of the rules you can expect to encounter when you get ready to prepare your 2016 federal income tax return.

Income tax rates. For 2016, ordinary federal income tax rates range from 10% to 35% unless your taxable income exceeds $415,050 when you're single or $466,950 if you're married filing jointly. The rate on income above those amounts is 39.6%.

Tax breaks that are now permanent. Three tax breaks you'll be able to take on your 2016 return, and on future returns: 1) The optional deduction for state and local sales tax in lieu of state and local income tax; 2) the $250 deduction for classroom supplies if you're an educator; and 3) IRA-to-charity transfers of up to $100,000 when you're 70½ or older.

Itemized deductions and personal exemption phase-outs. For 2016, itemized deductions and personal exemptions are limited when you file as single and your adjusted gross income (AGI) is above $259,400. The limitation begins with AGI above $311,300 for married couples filing jointly.

Alternative minimum tax. The exemption amount for 2016 is $53,900 for singles and $83,800 for married filing jointly.

Capital gains and dividends. Long-term gains are generally taxed at 15%. The rate is zero percent if you're in the 10% and 15% ordinary income brackets, and 20% when you're in the 39.6% ordinary income bracket.

Affordable Care Act surtaxes. You'll pay a Medicare surtax of 0.9% on wages and self-employment income exceeding $200,000 when you're single and $250,000 when you're married filing jointly. For unearned income, you'll pay the 3.8% net investment income tax when you're single and your modified AGI exceeds $200,000. If you're married filing jointly, the net investment income tax is imposed when your modified AGI exceeds $250,000.

If you have questions about your 2016 tax return, please call.

Judge Halts Enforcement of Overtime Regulations

Stop the presses? Maybe! A federal judge in Texas issued an injunction which temporarily halted the enforcement of the new FLSA overtime regulations. That means that employees properly classified as exempt under the current regulations (i.e., who satisfy BOTH the salary and duties tests) but whose salary did not reach the $47,476 threshold can remain classified as "exempt" (for now) and do not need to be paid overtime for hours over 40 in a workweek. It also means that the "highly compensated employee" exemption remains at $100,000. There is certain to be more to come on this topic, but for now, employers might be able to relax a bit. However…

Don't Exhale Yet! During the hoopla that occurred over the last 6+ months, many employers discovered that some of their employees were improperly classified even without the changes. In most cases, those employees meet the salary basis threshold (currently $23,660), but do not meet the equally-important "duties" test. The injunction DOES NOT affect those employees. They remain improperly classified because they do not meet the "duties" test. Employers that do not reclassify those employees as "non-exempt" continue to be exposed to liability for both straight time and overtime for all hours over 40 in a workweek. In addition, employers can be on the hook for penalties and attorney fees (both yours and the employees'). The lookback period is two or three years, so the potential cost is quite high. Companies caught in this bind should contact employment counsel to discuss the best strategy for converting the employees while minimizing exposure to the company.

Accelerated due dates for filing returns and statements relating to employee wage information

With filing season drawing near for the 2016 calendar year, you should know that the 2015 PATH Act, which was enacted on December 18, 2015, has accelerated certain deadlines for filing information returns for hired workers. Specifically, beginning with the 2016 calendar year, the deadline for submitting (1) Copy A of Form W-2 and Form W-3 to the Social Security Administration (SSA) for employee compensation and (2) Form 1099 -MISC and Form 1096 to the IRS for non-employee compensation is January 31 of the year after the calendar year to which the forms relate, i.e., January 31, 2017 for this filing season. This accelerated deadline applies irrespective of whether the information returns are filed electronically. Thus, the filing deadline for these information returns now matches the existing deadline (i.e., January 31 of the year after the calendar year for which the statements relate) for providing written statements reporting wage information and non-employee compensation, i.e. Form W-2 and Form 1099-MISC respectively, to recipients of that compensation. Before the enactment of the 2015 PATH Act, information returns for both categories of payments (i.e. employee and non-employee compensation) were due at the end of February if filed by paper and March 31 if filed electronically.

Failing to timely file or include the correct information on either the information return or written statement can result in penalties. If the failure is corrected by the 30th day ("30-day correction") after the required filing date the penalty is $50 per return or statement. Failures corrected after the 30th day but by August 1 ("August 1 correction") of the calendar year in which the required filing occurs are subject to a $100 penalty per return or statement. Failures that remain uncorrected after August 1 ("year-end correction") of the calendar year in which the required filing occurs are subject to a $260 penalty per return or statement. **The total amount imposed for penalties can range from $ 176,000 to $ 3,193,000 depending on the size of your business measured by gross receipts.**

If you are an existing payroll client, we will of course prepare your W-2's timely. However, if you prepare your own payroll and/or need for us to prepare forms W-2 and/or 1099-MISC for your employees and/or contractors, **we will need your information no later than January 9th, 2017.** We will not be able to guarantee timely filing for information received after this date. We strongly suggest that you begin accumulating the necessary information such as name, address, taxpayer identification number and amount paid to the contractor as soon as possible. Best practices include obtaining a form W-9 from the contractor.

If you would like to discuss these changes or obtain further information on this subject, please contact us soon. We appreciate your business and continued faith in us.

Thank you and best wishes for a joyful, prosperous 2017
Thank you for giving us the opportunity to serve you. We appreciate the confidence you have placed in us, and we value your business and referrals.

December Monthly Newsletter | 2016

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.