STEPHENSON & WARNER, INC.
CERTIFIED PUBLIC ACCOUNTANTS

September Monthly Newsletter 2017

Tax Filing Reminders

September 15

- Third quarter installment of 2017 individual and corporation estimated income tax is due.
- S corporations: Filing deadline for 2016 tax returns for S corporations that requested/received a six-month extension.
- Partnerships: Filing deadline for 2016 tax returns for partnerships that requested/received an automatic six-month extension.
- Electing large partnerships: Filing deadline for 2016 tax returns for electing large partnerships that requested/received a six-month extension.

October 16

- Filing deadline for 2016 individual or corporation tax returns that requested/received a six-month extension. Pay taxes due by this date.

Say Goodbye to the College Tuition Deduction

Congress decided not to extend this $4,000 deduction for 2017, leaving many parents worried that college will now be more expensive. However, Congress left in place two popular education credits that may offer a more valuable tax break:

- The AOTC. The American Opportunity Tax Credit (AOTC) is a credit of up to $2,500 per student per year for qualified undergraduate tuition, fees and course materials. The deduction phases out at higher income levels, and is eliminated altogether for married couples with a modified adjusted gross income of $180,000 ($90,000 for singles).
- Lifetime Learning Credit. The Lifetime Learning Credit provides an annual credit of 20 percent on the first $10,000 of tuition and fees, for either undergraduate or graduate level classes. There is no lifetime limit on the credit, but only couples making less than $131,000 per year (or singles making $65,000) qualify. Unlike the AOTC, this deduction is per tax return, not per student.

So who is affected by the loss of the tuition and fees deduction? If you are paying for your student's graduate-level courses and are making too much to qualify for the Lifetime Learning Credit, the tuition and fees deduction is generally the only means you have to reduce your tax bill.

Thankfully, there are many other tax benefits that help reduce the cost of education. There are breaks for employer-provided tuition assistance, deductions for student loan interest, tax-beneficial college savings options, and many other tax-planning alternatives.

Avoid These Common Tax Mistakes

There are nearly 1,000 different tax forms used by the IRS to report tax obligations. It's no wonder the IRS faces thousands of tax returns with errors each year. Here are some of the most common:

Wrong names and Social Security numbers. Taxpayers regularly make mistakes by entering incorrect information for their spouses and dependents. If you recently married or divorced but haven't yet changed your name with the Social Security Administration, you'll need to file under your old name.

Errors in age and birthdate. Much of the tax code is based on age. Without the correct birthdate, your eligibility for tax benefits could be cast in doubt.

Incorrect bank account numbers. If you're expecting a refund and want to have it direct deposited into your account, double-check your routing and account numbers. The IRS may catch most errors, but many are often missed. Once your refund is deposited in the wrong bank account, it's very difficult to get it fixed.

Overlooking online donations. Many people forget about emailed receipts at tax time. Catch missing deductions by searching your email inbox for keywords such as "gift" or "donation" before you file.

Missing forms. Taxpayers can miss dividend, interest and brokerage forms (Form 1099s) they get from their banks and investment accounts. These potential missing forms now also include Form 1095, proof of health insurance. If a form is missing, it may cost you extra tax, penalties and interest.

Not signing the return. Don't forget to sign your return! The IRS won't accept an unsigned return, and many people forget this last step. An unsigned tax return is the same thing as not filing in the eyes of the IRS. You not only face penalties and fines, but your tax return is open for audit indefinitely.

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Contractor or Employee? Knowing the difference is important

Is a worker an independent contractor or an employee? As an employer, getting this wrong could land you with an IRS audit and cost you plenty in many other ways. Here's what you should know:

- As the worker: If the worker is a contractor and not considered an employee, he/she must:
- Pay self-employment taxes (Social Security and Medicare-related taxes).
- Make estimated federal and state tax payments.
- Handle his/her own benefits, insurance and bookkeeping.

As the employer: You must ensure your employee versus independent contractor determination is correct. Getting this wrong in the eyes of the IRS can lead to:

- Payment and penalties related to Social Security and Medicare taxes.
- Payment of possible overtime, including penalties for a contractor reclassified as an employee.
- A legal obligation to pay for benefits.

When the IRS recharacterizes an independent contractor as an employee, they look at the business relationship between the employer and the worker. The IRS considers if the employer has the right to control the work (when, how and where the work is done) and the financial relationship (i.e., a contractor has a contract and customers, and invoices the company).

The more reasonable your basis for classification and the more consistently it is applied, the more likely an independent contractor classification will not be challenged.

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