

The Rudolph Report

www.rudolphcpa.com Year End 2016

To all our clients:

In light of our Northside ball club winning the World Series this century, I've decided to start this newsletter with a prayer:

Dear Baseball Gods,

You owe me nothing ever again.

P. S. I take back that request about a hurricane in St. Louis.

While it would be a hoot to discuss the Cubs for this entire newsletter, we have to do the grown up thing and address income taxes. In this edition, we'll let you know what's been extended for 2016 along with the new tax laws, many which affect small businesses. We'll end with some nifty tips on tax planning.

Please feel free to reach out to our office with your questions and tax planning needs before you take any action. We prefer prevention to clean up. Let's try to avoid situations like when your husband tried to save money at the veterinarian's office by medicating the dog himself with Tylenol from 1986 and a dollop of horseradish. Help us help you.

We hope that the holidays bring you rest (and a three foot yule log of Braunschweiger). The sun is shining and a W flag flies over the friendly confines all winter long.

Happy festivus,

Chris Rudolph CPA

2016 tax changes and extenders

Education tax credits for your college students now need to be validated with the exact amount listed under "paid tuition" on form 1098 T which is issued by the college bursar's office. The maximum credit is \$2,500. If you're looking to save taxes, have additional kids and send them to college.

The **teachers' deduction** of \$250 used to be limited to classroom supplies and software. Now the deduction includes professional development expense. However, you may still not deduct your trip to Puerto Loco under the guise of improving your knowledge of social studies y español.

If you've lost your primary residence to **foreclosure**, you may still exempt the cancelation of any mortgage debt from income under IRS code section 108. This provision does not extend to rental properties. Notice: This is complex tax law. (Don't let your cousin do your taxes in this case.) For example, under 108, you might be able to exempt cancelation of debt of a rental property if you qualify as insolvent. Please call our office to discuss your situation.

Mortgage insurance premiums are still deductible through 2016 (they are also still a racket). The tuition deduction is also still available for 2016. This benefits those who have college tuition expense but do not qualify for the American Opportunity credit, perhaps because the tuition is for post graduate schooling like culinary school for my mother-in law.

Rudolph CPA

1870 W. Winchester Rd Suite 113 Libertyville, IL 60048
(847) 362-1050 email: info@rudolphcpa.com (847) 362-1380 fax

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Finally, racehorses—I'm not making this up—can now be depreciated over three years rather than seven. Let's hope you didn't place a bet that Congress wouldn't pass something.

Before you close the books on '16

This is the Business Section· Warning: Boring Stuff

Are you considering a **retirement plan** for your small business? If your business employs only you and/or your spouse, then a solo 401(k) may work. The solo 401(k) must be established before December 31st. Funding is significant: Up to 100% of earnings with a cap of \$18,000 plus \$6,000 if you are over age 50. Additionally, your small business can establish a SEP IRA and fund it with up to 25% of your salary. The aggregate funding between these two plans is \$59,000 annually. Just make sure you leave enough cash to buy Cubs tickets and popcorn balls. There is not a need to pay an actuary or pension administrator, so these plans are inexpensive to operate. Rules can be a tad complex, so please give us a shout if you think you might benefit from opening a small business retirement plan. We promise not to sell you any investment (or Amway) products.

Depreciation for qualified leasehold improvements now allows for a maximum of \$500,000 under section 179.

In English: If your business leases a space and is doing a buildout, you may be able to write off much of the expenditure in the current year rather than spreading the cost over 39 years.

In American: A lot less tax this year.

In Tennessean: More waffles now.

The annual limit of \$500,000 under section 179 is now permanent for all qualifying assets.

Also, the 50% bonus depreciation is permanent (until changed retroactively on a temporary basis subject to change to permanency, pending approval).

Business **filing deadlines** have changed. "C" Corporations must now file an income tax return by April 15th rather than March 15th. The extension deadline is September 15th. Partnerships must now file by March 15th with an extension date of September 15th. The filing dates for S Corporations remains at March 15th with a deadline of September 15th. Please don't ask why Congress made the changes. Yo no sé.

Personal year-end tax planning tips

If you have astounding nursing care expenses, consider large IRA distributions to utilize the medical expenses.

Take photos or videos of significant non-cash contributions to charities for validation—clothes, furniture, & toenails resembling the Doobie Brothers.

Change your withholding allowances if you will have a change in marital status in 2017 or if one spouse is returning to work.

Declare stock option income if your tax bracket will be much higher next year.

Find a job that has stock options (perhaps Google).

Consider a Roth conversion if your bracket will be lower this year or if you have a large ordinary business loss on a sale of rental property.

Consider purchasing business assets by year-end if you plan to purchase them anyway and if you have a higher tax bracket in 2016 than you will have in 2017.

Sell stocks that are have unrealized gains if you can offset the tax with stock losses & wish to diversify.

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