

# VOLLMER, DANIEL, GAEBE & GROVE, LLP CERTIFIED PUBLIC ACCOUNTANTS

## TAX NEWSLETTER

Serving Our Community Since 1963

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## Happy Holidays



*During the holiday season,  
our thoughts turn gratefully to those who  
have made our success possible.  
It is in this spirit we say thank you  
and best wishes for the holidays and New Year.*

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## Year-End Tax Planning

Several significant tax law changes took effect in 2016 that may affect your business's federal tax filings in 2017. As the year draws to a close, we should review these changes, as well as your business's projected taxable income or loss to see what actions might be appropriate before year end to reduce taxes. It's also important to ascertain whether enough estimated taxes have been paid to avoid any underpayment of estimated tax penalties.

If you would like to discuss your specific situation, please call our office at your earliest convenience to arrange an appointment. Otherwise, make your income tax interview appointments in early February 2017.

### Further Consideration

1. In 2016, the Franchise Tax Board began sending out MyFTB Account Authorization letters to taxpayers when their CPA or authorized representative added them as a client on the FTB website. The authorization allows us to view estimated payments, balances, and various tax information. Please contact our office for any questions or concerns.
2. IRS scam phone calls and emails continue. The IRS will never call or email you about taxes due without first notifying you by mail. Also, the IRS will never ask you for credit or debit information over the phone. If you have any doubt about any IRS contact you've recently had, please contact our office.

## Highlights for 2016

1. President-elect Trump has proposed some significant changes to the Tax Code for individuals and businesses, including changes to some of the items below. If these proposals become law, especially any reduction in income tax rates, and are made retroactive to January 1, 2017, your tax planning definitely needs to be reviewed. Our office will work with you to maximize any potential tax savings.

2. Federal income tax rates for 2016 are at 10% for the lowest tax bracket and 39.6% for the highest tax bracket. The 39.6% bracket for 2016 and 2017 begins at the following amounts:

	<u>2016</u>	<u>2017</u>
Married filing jointly	\$ 466,950	\$ 470,700
Head of household	\$ 441,000	\$ 444,550
Unmarried individuals	\$ 415,050	\$ 418,400
Married filing separately	\$ 233,475	\$ 235,350

3. In 2016, the top rate for capital gains and dividends remains at 20% for unmarried individuals with incomes over \$415,050 and married individuals with incomes over \$466,950. The 15% rate is retained for taxpayers in the middle brackets. The zero rate is retained for taxpayers in the 10% and 15% brackets.

4. Continuing in 2016, higher-income taxpayers may be liable for a net investment income (NII) surtax. NII generally includes interest, dividends, capital gains, rental and royalty income, certain annuities and passive activities. The NII surtax on individuals equals 3.8% of the lesser of net investment income for the tax year or the excess, if any, of the individual's modified adjusted gross income for the tax year over the threshold amount. The 2016 threshold amount is equal to \$250,000 for joint returns and \$200,000 for single returns.

5. The maximum estate tax rate for 2016 and 2017 is 40%. The combined estate and gift tax exclusion amount is \$5,450,000 for 2016 and \$5,490,000 for 2017. The annual gift tax exclusion per donee on which no gift tax is due is \$14,000 for 2016 and 2017.

6. The 2016 child tax credit remains \$1,000 for each child under age 17 at the end of the year.

7. Additional first-year "bonus" depreciation (50%) of qualified new business equipment is currently available for 2016 and 2017.

8. The Luxury Auto Depreciation Limits in effect for 2016 are \$3,160 and \$3,560 for passenger autos and trucks & vans, respectively.

9. In 2016, business owners may elect Section 179 expensing to deduct the cost of new and used purchased equipment. The current federal expensing limit is \$500,000 and reduces dollar for dollar when total asset acquisitions for the tax year exceed \$2,010,000. This election will only offset income and will not reduce it below zero.

10. For businesses that acquire tangible property, the final "Repair Regulations" gives taxpayers a safe harbor to deduct acquisition costs if the total invoice or per item cost is under \$2,500 for most taxpayers or \$5,000 if financial statements are audited.

11. Filing deadlines for partnerships and C-corporations have changed for tax year 2016. Calendar-year entities taxed as partnerships will have a filing due date of March 15, 2017, while calendar-year C-corporations will have a filing due date of April 15, 2017.

### Credits vs. Deductions

How is a tax credit different from a tax deduction?

A tax credit reduces your tax dollar for dollar ~ a \$1,000 tax credit actually saves you \$1,000 in taxes.

By comparison, a tax deduction reduces your *taxable income*, but is only worth the percentage equal to your marginal tax bracket. For example, if you are in the 25% marginal tax bracket, a \$1,000 deduction saves you \$250 in taxes (.25 x \$1,000), which is \$750 less than the savings with a \$1,000 tax credit. The higher your tax bracket, the more a deduction is worth, but a credit is always worth more than a dollar-equivalent deduction.

## 2016 – 2017 Payroll Information

Vollmer, Daniel, Gaebe & Grove LLP provides payroll tax compliance and consulting to many of our clients. The rules are complex and change frequently. To assist our clients and their payroll staff in complying with these rules, we have prepared the following annual summary of payroll related information. We hope you and your staff find this information helpful. If you have any questions, or wish to discuss specific situations, please contact us.

**State reporting** requirements exist for *all businesses* to report *all individuals who are Independent Contractors* and who perform *more than \$600* of services per year. Form DE 542 is available from the Employment Development Department at [www.edd.ca.gov](http://www.edd.ca.gov) or call (888) 745-3886. Penalties may be assessed for failure to comply.

Employers are required to report quarterly, the total state subject wages, Unemployment Insurance (UI) and Disability Insurance (DI) taxable wages and contributions, by filing a Quarterly Contribution Return and Report of Wages (DE 9). Employers will continue to report employee wages and personal income tax withheld on the Quarterly Contribution Return and Report of Wages (DE 9C). **Beginning January 1, 2017, the EDD has mandated that employers with 10 or more employees will be required to electronically file employment returns, wage reports, and electronically pay payroll tax deposits. Beginning January 1, 2018, all remaining employers will be required to do the same.**

Employers are required to deposit federal income tax withheld and FICA liability under a monthly, semi-weekly, or \$100,000 next-day deposit rule. The Internal Revenue Service will notify the employer *annually* of its deposit status based on its previous deposit history. The *monthly* deposit rule requires employment taxes to be deposited by the 15th day of the following month. *Semi-weekly* depositors are required to deposit employment taxes on Wednesdays or Fridays, depending on the day wages are paid. The *\$100,000 next-day deposit rule* requires a deposit the day after an accumulated employment tax liability exceeds \$100,000. California requires a deposit when state income tax withholding exceeds \$350 for monthly depositors or \$500 for semiweekly depositors.

Some employers with small payrolls, including government employers, will file Form 944, Employers Annual Employment Tax Return, instead of filing Form 941 each quarter. Generally, if you have an annual liability of \$1,000 or less for withheld income tax, Social Security and Medicare tax, you are affected by this change in filing requirement and the IRS will notify you early in the year. California employers are still required to file quarterly.

<u>Year</u>		<u>Base</u>	<u>Employer FICA Rate</u>	<u>Employee FICA Rate</u>	<u>Employer FICA Tax</u>	<u>Employee FICA Tax</u>	<u>SE Rate</u>	<u>SE Tax</u>
2016	Social Security	\$118,500	6.20%	6.20%	\$7,347.00	\$7,347.00	12.40%	\$14,694.00
	Medicare *	Unlimited	<u>1.45%</u>	<u>1.45%</u>			<u>2.90%</u>	
	Combined		<u>7.65%</u>	<u>7.65%</u>			<u>15.30%</u>	
2017	Social Security	\$127,200	6.20%	6.20%	\$7,886.40	\$7,886.40	12.40%	\$15,772.80
	Medicare *	Unlimited	<u>1.45%</u>	<u>1.45%</u>			<u>2.90%</u>	
	Combined		<u>7.65%</u>	<u>7.65%</u>			<u>15.30%</u>	

\*High income individuals are subject to the 0.9 percent additional Medicare tax above certain income thresholds.

(2016–2017 Payroll Information Continued from Page 3)

All federal tax deposits must be made electronically. The regulations mandated by the IRS eliminated federal tax deposits by paper coupons. Instead, taxpayers must use the Electronic Federal Tax Payment System (EFTPS). The State (EDD) has followed suit and beginning January 1, 2017, will no longer accept paper form DE-88 coupons from employers with 10 or more employees. If you need assistance in enrolling in EFTPS (Federal) or EFT (State), please contact us.

All agricultural wages are subject to federal income tax withholding and FICA withholding if the agricultural employer pays wages of \$150 or more to an individual employee or \$2,500 or more to all employees. (An exemption may apply to certain hand harvest piece-rate labor.)

Federal Unemployment (FUTA) (Employer) tax rate for 2016 remains at 0.6%. California has confirmed that it will be a credit reduction state. Employers in California will therefore be subject to an additional 1.8%.

State Disability Insurance (SDI) tax rate for employees is 0.90% (includes the Paid Family Leave Tax) on the first \$106,742 of subject wages for 2016. The rate remains at 0.90% on the first \$110,902 of subject wages for 2017.

State Unemployment Insurance (Employer) tax rate schedule in effect for 2017 provides UI contribution rates from 1.5% to 6.2%. The taxable wage limit is \$7,000 per employee. The UI rate for new employers is 3.4% for a period of up to three years.

Household Wages paid for domestic services may be subject to employment taxes. Withholding of federal and state income taxes is generally not required unless requested by the employee. For 2016, wages are subject to FICA taxes when they exceed \$2,000 annually and subject to FUTA taxes when they exceed \$1,000 quarterly. State payroll taxes may be required if wages exceed \$750 in a calendar quarter.

Worker's Compensation Insurance Coverage for most employees is mandatory in California. Review your policies with your servicing insurance agent for proper coverage.

Information Returns (Form 1099) are required for certain types of payments of \$600 or more (\$10 for certain interest paid) per year made by a trade or business (including farmers) to an unincorporated entity. Penalties apply to (1) not filing or late filing of an information return, (2) not including a payee's identification or social security number on an information return, or (3) not providing copies of information returns to payees. Electronic filing requirements apply if you have 250 or more W-2's or 1099's. If the payee fails to furnish the *proper* name and number, a 28% withholding requirement will apply.

Employment Eligibility Verification (Form I-9) is required of all employees and must be retained by all employers for the Immigration and Naturalization Service. Penalties may be assessed for failure to comply.

Paid Sick Leave Benefits: Effective July 1, 2015, California employers are required to provide a minimum of 24 hours or 3 days sick leave per year to all employees including full-time, part-time and occasional employees.

Minimum Wage: For any employer who employs 26 or more employees, the minimum wage in California increases to \$10.50 per hour on January 1, 2017, then up to \$11.00 per hour on January 1, 2018.

(Highlights for 2016 Continued from page 2)

12. If you have a financial interest or signature authority over a foreign account, including a bank account, brokerage account, mutual fund, trust, or other type of foreign financial account, you may be required to report such account yearly to the IRS by filing FINCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), by April 15. Penalties for non-compliance are significant. If you feel you may need to file this form, please contact our office for assistance.
13. Beginning January 1, 2014, the Affordable Care Act generally requires individuals to either (1) carry minimum essential health insurance coverage for each month, (2) qualify for an exemption or (3) make a payment when filing his or her return. Minimum essential coverage for purposes of the individual mandate is employer-sponsored coverage, coverage through a state or federal Marketplace, Medicare, Medicaid, and other plans. Certain individuals may be exempt, including individuals below the minimum threshold for filing a return.
14. For 2016, Form 1095 will be issued to taxpayers for health insurance reporting on their tax returns. Form 1095 will be issued for the following:
- 1095-A:** Issued by healthcare provider to anyone who enrolled in health coverage through a Marketplace and is utilizing the premium tax credit.
- 1095-B:** Issued by employer-sponsored plan, government-sponsored program, or individual market plan carrier.
- 1095-C:** Issued by employers with more than 50 full-time employees to indicate if the employer offered health coverage to its employees and their families.
15. Effective January 1, 2017, the limitation on the annual benefit under a defined benefit plan increases from \$210,000 to \$215,000. The limitation for defined contribution plans in 2017 increases to \$54,000. In addition, the elective deferral limit for taxpayers who participate in 401(k) plans remains unchanged at \$18,000 (\$24,000 if age 50 and older).
16. Small business owners may qualify for the Small Business Health Care Tax Credit. The credit is worth up to 50% of a small business's health care premium costs for its employees on a qualified health plan offered through the Small Business Health Options Program (SHOP marketplace). The credit is subject to phase out for employers with average wages between \$25,000 and \$50,000 or between 10 and 25 full-time equivalent employees.
17. The Federal Solar Tax Credit is available for 2016. The credit is 30% (through 2019) of the cost of a new solar electric system. Existing homes, new construction and businesses qualify. Both principal residences and second homes qualify, however, passive rentals do not qualify. The credit is reduced to 26% in 2020 and 22% in 2021. Certain non-solar energy systems will no longer qualify for the credit after December 31, 2016.
18. Mileage Reimbursement Rates are:
- |                 | <u>2016</u>     | <u>2017</u>   |
|-----------------|-----------------|---------------|
| a. Business –   | 54.0 Cents/Mile | ?? Cents/Mile |
| b. Medical –    | 19.0 Cents/Mile | ?? Cents/Mile |
| c. Charitable – | 14.0 Cents/Mile | ?? Cents/Mile |
- At the time of this printing, the 2017 mileage reimbursement rates were not available.
19. Effective for tax years beginning after December 31, 2012, the Additional Medicare Tax increases the employee-share of the Medicare tax by an additional 0.9% for wages of certain "higher income-level" threshold amounts exceeding \$200,000 for single individuals; \$250,000 for married couples filing a joint return; and \$125,000 for married individuals filing separate returns.
20. For calendar-year taxpayers, the 2016 and 2017 estimated taxes are payable quarterly as follows:
- |              | <u>Federal</u> | <u>California</u> |
|--------------|----------------|-------------------|
| April 15     | 25%            | 30%               |
| June 15      | 25%            | 40%               |
| September 15 | 25%            | 0%                |
| January 15   | 25%            | 30%               |
- Certain taxpayers are required to pay California estimates electronically.

## Range of Services

In addition to income tax planning, preparation, and compliance, we offer a variety of other related services including:

- ◆ Audited, Reviewed, and Compiled Financial Statements
- ◆ Estate and Gift Planning and Return Preparation
- ◆ Litigation Support
- ◆ Business Valuation
- ◆ Accounting Systems and Computerization (including help in selection of the proper accounting system and computer software for your needs)
- ◆ Personal Financial Affairs (including paying of bills, medical insurance claims, et cetera)
- ◆ Computerized Bookkeeping and Payroll
- ◆ Transaction Planning (call us early – while you plan the deal)
- ◆ Business Consulting
- ◆ New Entity Planning (Limited Liability Companies, Family Limited Partnerships, S-Corporations, Etc.)

## Disclosure of Privacy Policy

CPAs have been and continue to be bound by professional standards of confidentiality that are more stringent than those required by law. Therefore, we have always protected your right to privacy.

As your CPA, we are required to keep all information about our engagement confidential so we will not disclose any information about you unless we have your approval or as required/permitted by law. This applies even if you are no longer a client.

We are committed to the safe keeping of your confidential information and we maintain physical, electronic, and procedural safeguards that comply with our professional standards.

The privacy of your nonpublic information, our professional ethics, and our ability to provide you with quality financial services are very important to us.

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## Milestones & Anniversaries

We are pleased to announce that  
as of June 1, 2016,  
D. William Hitchman, CPA and  
Lea N. Alvarado, CPA  
have become partners of the firm.