2017 Edition

Tax Planning Strategies

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Financial Knowledge

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Course Description

Participants who attend this course will be better able to understand key provisions of the current tax law through relevant, real-life illustrations, and workbook exercises. Participants will learn the tax implications affecting retirement, investments, homes, charitable giving, education, and children.

Audience

Recommended for those who desire broader knowledge of current tax laws and how to minimize their taxes.

Learning Outcomes

- Review the income and capital gains tax rates currently in effect
- Figure taxes using both regular and AMT (alternative minimum tax) calculations
- Navigate clearly through the estimated tax rules
- Identify twelve essential tax planning terms
- Define the contribution and "catch-up" limits for your employer retirement plan
- Distinguish between a Traditional IRA and the Roth IRA
- Determine how investment income from stocks, bonds, and mutual funds is taxed
- Determine whether taxable vs. tax exempt income yields a higher after-tax return
- Identify four methods allowed by the IRS to figure investment gains and losses
- Report gains and losses correctly on the IRS Schedule D form
- Examine the wash sale rule
- Learn how to minimize taxes through pre-tax, tax deferred, and tax free investments
- Uncover ten investments that provide tax advantages
- Practice using the IRS home sale rules for capital gain exclusion
- Discover what records must be kept to back up charitable donations
- Receive the maximum dollar amount for donated property with a valuation guide
- Distinguish between tax credits and student loan interest deductions for education
- Learn ten necessary questions to ask before choosing a tax preparer
- Identify IRS audit triggers and how to avoid them

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Course Overview

This course focuses exclusively on taxation from a federal perspective. Taxes vary considerably from state to state. For more information on state taxes, visit the Federation of Tax Administrators' website at **http://www.taxadmin.org/state-tax-agencies**.

In this class, we will focus on the main body of the workbook, which covers taxation as it relates to retirement, investments, homes, charitable giving, estate planning, education, and children. For further study and review outside of the classroom, more specific details on many topics can be found in the Appendix. In addition, a Tax Preparation Guide, also in the Appendix, includes example tax forms, and more information about tax preparation, deductions, and audits.

Income Taxation

Income tax is based upon taxable income. The tax rate(s) that apply generally depend on whether the income is considered ordinary or capital gain income.

Ordinary Income	Does not qualify for capital gains treatment. This is typically wages and interest.
Capital Gain	A positive difference between the purchase price and selling price of a capital asset as defined by the IRS.
	The taxation on capital gains depends on how long the capital asset was held. There are two types of capital gains
	Short-Term: Holding an investment for one year or less. Short-term capital gains are generally taxed at ordinary income tax rates.
	Long-Term: Holding an investment for over a year. Long-term capital gains are taxed at a flat rate depending upon the taxpayer's ordinary income tax bracket:

Capital Gains Tax	Tax Bracket	Capital Gains Tax
	10-15%	**0%**
	25-35%	**15%**
	39.6%	**20%**

Capital Loss	A negative difference between the purchase price and selling price of a capital asset as defined by the IRS. Capital losses are deductible against capital gains and against a maximum of $3,000 of ordinary income.
Dividend Income	Dividend income received from stock held in taxable accounts is generally considered taxable income. However, taxes are not required to be paid on dividends received from stock held in tax-deferred accounts such as a 401(k) plan or IRA until withdrawal. Dividend income received by an individual shareholder from a domestic or qualified foreign corporation is generally taxed in the same manner as long-term capital gains.
Effective vs. Marginal Rate	**Effective:** A blended combination of all the ordinary income tax rates that apply to a person's taxable income.
	Marginal: The percentage of tax paid on the last dollar of ordinary income. Also referred to as your *tax bracket*.

Regular Tax Calculation for 2017

The following simplified calculation shows how to figure the amount of tax owed:

1		**Gross Income**
2	-	**Adjustments to Income** (Student loan interest, IRA contributions, moving expenses, self-employment tax and health insurance, Keogh & SEP plan contributions, alimony, etc.)
3	=	**Adjusted Gross Income (AGI)**
4	-	**Standard Deduction or Total Itemized Deductions***
5	-	**Personal Exemptions*** ($4,050 in 2017)
6	=	**Taxable Income**
7		**Calculate Tax** (Based on *Taxable Income*)
8	-	**Credits**
9	+	**Other Taxes** (self-employment, household employment, etc.)
10	=	**Tax Owed**

Standard Deduction Amounts

Filing Status	2017	2016
Single or Married Filing Separately	$6,350	$6,300
Head of Household	$9,350	$9,300
Married Filing Jointly	$12,700	$12,600

* Itemized deductions and personal exemptions are reduced for higher-income individuals. See the Appendix for more information.

2017 Federal Income Tax Rates[1]

Tax Rate	Single	Married, Filing Jointly	Married, Filing Separately	Head of Household	Long-Term Capital Gains
10%	$0-9,325	$0-18,650	$0-9,325	$0-13,350	0%
15%	$9,326-37,950	$18,651-75,900	$9,326-37,950	$13,351-50,800	
25%	$37,951-91,900	$75,901-153,100	$37,951-76,550	$50,801-131,200	15%
28%	$91,901-191,650	$153,101-233,350	$76,551-116,675	$131,201-212,500	
33%	$191,651-416,700	$233,351-416,700	$116,676-208,350	$212,501-416,700	
35%	$416,701-418,400	$416,701-470,700	$208,351-235,350	$416,701-444,550	
39.6%	$418,401+	$470,701+	$235,351+	$444,551+	20%

Based on Taxable Income *Source: RIA Federal Tax Handbook, 2017*

EXAMPLE

Sandra is single and anticipates having taxable income of $99,000 for 2017. She has no tax credits or other taxes she owes. Here is how her federal tax liability for 2017 would be calculated:

Tax Rate	Filing Single	Tax
10%	$0-9,325	$932.50
15%	$9,326-37,950	$4,293.75
25%	$37,951-91,900	$13,487.50
28%	$91,901-99,000	$1,988.00
Total Tax Owed		$20,701.75

- Sandra's marginal tax rate is 28%. Sandra's effective tax rate is 21%
- Effective Tax Rate = Tax Owed ÷ Taxable Income
- $20,701.75 ÷ $99,000 = 21%

[1] See Appendix for 2016 Federal Income Tax Rates

✓ EXERCISE

What is your anticipated gross income? ________________

What is your anticipated adjusted gross income? ________________

What is your anticipated taxable income? ________________

Calculate your anticipated 2017 tax liability in the chart below:

Tax Rate	Filing Status:	Tax
10%		
15%		
25%		
28%		
33%		
35%		
39.6%		
	Total Tax Owed	

Effective Tax Rate = Tax Owed ÷ Taxable Income

What is your anticipated marginal tax rate for 2017? ________________

What is your anticipated effective tax rate for 2017? ________________

✓ EXERCISE

Select the correct answer for each statement:

1. **No matter how much ordinary income a taxpayer has, if taxes are owed, some of that income will be taxed at a 10% rate in 2017.**

   TRUE FALSE

2. **In 2017, someone in the 35% tax bracket would have his or her total income subject to six different tax rates.**

   TRUE FALSE

3. **Someone in the 25% tax bracket for ordinary income would pay what rate for an investment held two years and sold on May 6, 2017?**
   - A. 5%
   - B. 10%
   - C. 15%
   - D. 25%

4. **As a follow up to Question 3: If that investor had sold an investment held for less than one year on May 6, 2017, what rate would have applied?**
   - A. 5%
   - B. 10%
   - C. 15%
   - D. 25%

Answers can be found on page 71.

Alternative Minimum Tax (AMT) Calculation

Alternative Minimum Tax (AMT) attempts to ensure that all individuals pay a minimum amount of tax. It is a separate tax computation, in addition to the regular tax calculation, that one must figure using IRS Form 6251. In effect, AMT eliminates many deductions and credits for certain individuals. AMT and regular tax amounts are compared and you pay whichever one is greater.

2017 AMT Formula

1		**Regular Taxable Income**	
2	+	**Adjustments to Income** (See Below)	
3	+	**Tax Preferences** (See Below)	
4	–	**AMT Exemption***	$84,500 Married Filing Jointly $54,300 Single $42,250 Married Filing Separately
5	=	**Alternative Minimum Taxable Income (AMTI)**	
6	×	**26% of AMTI up to and including $187,800**	
7	+	**28% of AMTI over $187,800**	
8	=	**AMT**	

Common Adjustments and Preference Items

- Bargain element on the exercise and hold of an incentive stock option past the end of the year in which it was exercised
- Personal exemptions
- State and local income, personal property, and real estate taxes
- The standard deduction (if you do not itemize)
- Miscellaneous itemized deductions
- Mortgage interest expense from a home equity loan after June 30, 1982, if the proceeds were *not* used to purchase, construct, or substantially improve a principal residence or qualified second home
- Tax-exempt interest from certain private activity municipal bonds issued after August 7, 1986, and dividends from mutual funds attributable to interest on those bonds

* **A note regarding the AMT Exemption:** The AMT exemption has been permanently tied to inflation, since the American Taxpayer Relief Act of 2012. Additional information can be found in the Appendix.

✓ EXERCISE

Indicate whether the following statements are True or False:

1. **All taxpayers are supposed to calculate both the regular income tax and AMT.**

   TRUE FALSE

2. **After computing both the regular tax and AMT, you pay whichever is lower.**

   TRUE FALSE

3. **A taxpayer will not know if AMT is owed unless the calculation is performed.**

   TRUE FALSE

4. **Do these features pertain to regular income tax, AMT, or both?**

	Feature	Regular	AMT
A.	A required calculation		
B.	Flat tax		
C.	Progressive tax		
D.	Allows mortgage interest deduction for a primary home		
E.	Long-Term capital gains are taxed at a maximum rate of 15% (20% for those in the 39.6% bracket)		
F.	Many deductions and credits are reduced or eliminated		
G.	Allows a certain amount for exemptions		
H.	Indexed for inflation		
I.	Charitable deductions are allowed		

Answers can be found on page 71.

General Tax Planning Tips

Review Withholding

A tax refund is simply a return of your own money, without any interest paid on the "loan". If you receive a significant refund or have to pay a significant amount upon filing your taxes (~$1000 or more), you may want to revise your withholding allowances. In order to revise your withholding, file a new W-4 form with your employer.

Make sure to follow the estimated tax rules to avoid tax penalties. You must pay estimated taxes based on your regular income tax or AMT, whichever is greater.

Tax Deductions

Deduct as much as you can legally. Itemize deductions to see if that results in a higher number than the current standard deduction amount.

For increased tax deductions, estimate your remaining tax liability for state and local taxes and pay them before year-end. In some cases, it may make sense to defer those deductions if you anticipate being in a higher tax bracket next year or if the added deductions push you into owing AMT. Calculate and see which offers greater benefits.

It is also popular to bunch deductions together, including property taxes and charitable contributions, so that you qualify for a higher itemized deduction amount (rather than using the standard deduction) for a given year.

Tax Credits

Remember that tax credits are more valuable than deductions because they reduce your taxes dollar for dollar. We'll discuss a number of available tax credits throughout this course. **Some typical tax credits include:**

- Adoption credit[1]
- AMT credit[2]
- Child and dependent care expense credit[1]
- Child tax credit[1]
- Education credits[1]
- Retirement savings contributions credit[2]

Shift Income or Losses

If possible, shift income such as a bonus, realized investment gains, or investment losses (from actual securities sales) into the current or upcoming year to qualify for various credits and/or deductions and to minimize taxes.

[1] Discussed later in this course

[2] See Appendix for more information

Understanding Tax Deductions

There are many expenses that may be incurred throughout the course of the year that are tax-deductible. Some of the more common deductions include:

I. Entirely Deductible as Adjustments to Income (Itemization Not Required):

A. Moving Expenses
B. Deductible IRA Contributions
C. Alimony
D. Student Loan Interest

II. Deductible *in Addition to* the Standard Deduction:

A. Aged (older than 65) - $1,550/single, $1,250 per spouse (filing jointly)
B. Blind - $1,550/single, $1,250 per spouse (filing jointly)

III. Fully Deductible (No AGI Hurdle) When Itemizing Deductions:

A. Personal Property Taxes
B. Interest on Margin Loans[1]
C. Charitable Contributions, Including Travel for Charity
D. State Income Taxes

IV. Miscellaneous Itemized Deductions Subject to a 2% AGI Hurdle Unless Noted:

A. Medical and Dental Expenses (Subject to 10% Hurdle)
B. Un-Reimbursed Casualty or Theft Loss[2]
C. Un-Reimbursed Employee Expenses
D. Tax Preparation Fees
E. Investment Expenses
F. Home Office Deduction
G. Computer Expense
H. Job Hunting Expense

Itemized Deductions are Subject to Phase Outs. Refer to the Appendix for additional information on frequently-overlooked deductions.

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[1] Deductible only up to the amount of net investment income

[2] Casualty and theft losses are only deductible past a $100 “floor” and 10% AGI “hurdle”

Estimated Tax

Estimated tax may be owed on income that is not subject to withholding. In addition, estimated tax may be required to be paid if the amount of income tax being withheld from a taxpayer's salary, pension, or other income is not enough. You do not have to make estimated tax payments until you have income on which tax will be owed. If you have income subject to estimated tax during the first payment period, the first payment must be made by the due date for the first payment period.

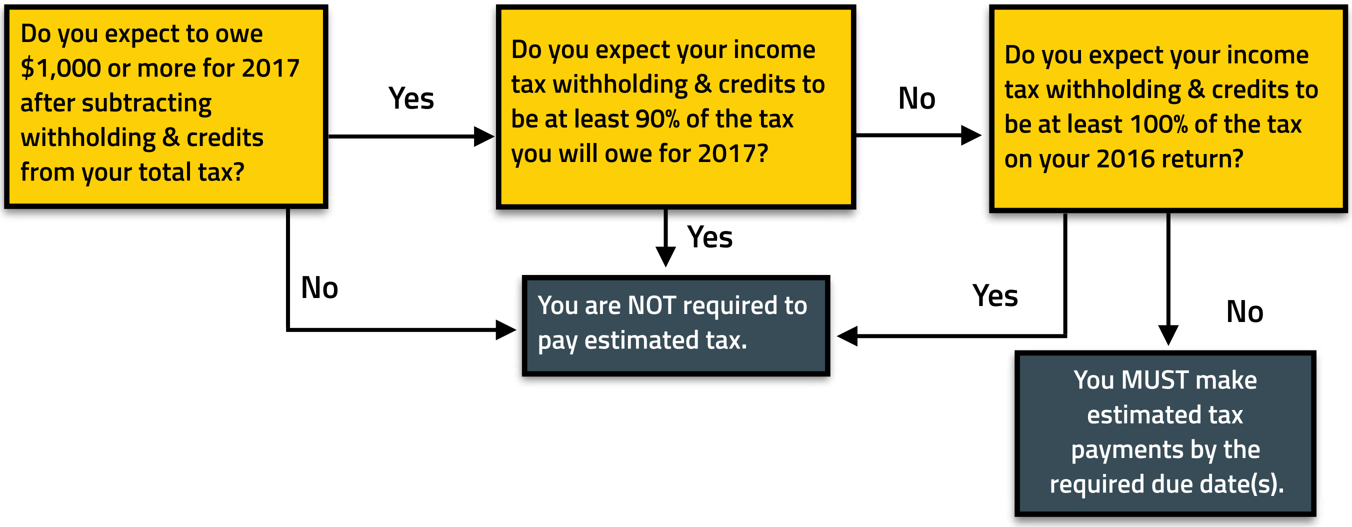
You can pay all of your estimated tax at that time or in four installments. If the installment method is used, make the first payment by the due date for the first payment period and then make the remaining installment payments by the due dates for the later periods. If you don't pay enough tax by the due date of each of the payment periods, you may be charged a penalty even if a refund is due when you file your income tax return. There are three ways to make estimated 2017 tax payments:

1. Credit an overpayment on your 2016 return to your 2017 estimated tax
2. Send in a payment with a voucher from Form 1040-ES. You must pay estimated taxes based on both regular income tax and AMT—whichever is greater
3. Using credit cards on a pay-by-phone system or the Internet

Time Period	Payment Due
January 1 — March 31	April 18
April 1 — May 31	June 15
June 1 — August 31	September 15
September 1 — December 31	January 15

The Estimated Tax Rules

A taxpayer must make sure that enough tax is paid in throughout the year. The following chart below summarizes the estimated tax rules.



For making 2017 estimates, however, taxpayers whose adjusted gross income on their 2016 return is over $150,000 (over $75,000 if married filing separately) must pay 90% of their 2017 tax or 110% of their 2016 tax.

Tax Terminology Review

It is important to understand essential tax terms for planning and calculating tax liability.

✓ **EXERCISE**

Match the following descriptions with the correct tax term:

	Description	Tax Term
1.	A positive difference between the purchase price and selling price of a capital asset as defined by the IRS.	**A. Capital Loss**
2.	Income that does not qualify for capital gains treatment (e.g. wages and interest).	**B. Short Term**
3.	Holding an investment for more than one year.	**C. Estimated Tax**
4.	An expenditure that may reduce the amount of your income subject to tax.	**D. Tax Credit**
5.	The method used to pay tax on income that is not subject to withholding.	**E. Capital Gain**
6.	A reduction in the amount of tax owed.	**F. Ordinary Income**
7.	A separate tax computation that must be made in addition to the regular tax computation.	**G. Effective Tax Rate**
8.	Income that is subject to taxation.	**H. Long Term**
9.	A negative difference between the purchase price and selling price of a capital asset as defined by the IRS.	**I. Marginal Tax Rate**
10.	Holding an investment for one year or less.	**J. Taxable Income**
11.	The percentage of tax that is paid on your last dollar of ordinary income.	**K. Tax Deduction**
12.	A blended combination of all the ordinary income tax rates that apply to a person's taxable income.	**L. Alternative Minimum Tax (AMT)**

Answers can be found on page 71.

Employer Retirement Plans

Contributions to employer retirement plans such as 401(k), 403(b), and 457 plans, are generally made with pre-tax dollars. In other words, income tax is not paid on amounts contributed up to the maximum limit. In addition, any income and/or gains generated from these types of accounts are tax-deferred until withdrawn.

The maximum you may elect to contribute to a 401(k) plan or 403(b) is determined by your age. Regardless of age, you may contribute the following:

Year	Contribution Limit
2017	$18,000

Those age 50 or older may make an additional "catch-up" contribution:

Year	Catch-Up Limit
2017	$6,000

If your employer allows it, the tax code now allows you to choose to make Roth contributions as well as (or in lieu of) deductible contributions to a 401(k) or 403(b).

Roth Contributions

- If you choose to make Roth contributions (assuming your plan allows it) those contributions are taxed when deposited, allowing all earnings to be withdrawn tax-free provided the following conditions are met[1]:
  - The account must have been established for at least five years **AND**
  - You must be at least age 59½

Employer plans *must* be amended to allow employees this choice. Check with your employer to determine if Roth contributions are allowed. Note that all contributions to a 401(k), regardless of whether they are deductible or Roth, cannot exceed the maximum annual limits stated above.

Individual Retirement Accounts (IRA)

The 2017 contribution limit is $5,500. The 2017 catch-up contribution limit for those age 50 and over is $1,000. There are two different types of IRAs: **Traditional** and **Roth**.

There are certain earned-income limitations that apply in order to fund some of the various IRAs. With Traditional IRAs, earnings are generally allowed to grow *tax-deferred* and with a Roth IRA, they generally grow *tax-free*.

You must have earned income (from wages) to qualify for an IRA. Keep in mind that a spouse with adequate earned income can "lend" income to the non-earner spouse for IRA purposes. Each person is limited to a maximum aggregate amount of $5,500 annually ($6,500 if age 50 or older) for all retirement IRAs in 2017.

[1] Note that all contributions to a 401(k), regardless of whether they are deductible or Roth, cannot exceed the maximum annual limits stated above.

Traditional IRAs

Deductible IRA

Allows those with earned income (from wages) up to a $5,500 ($6,500 if 50 or older) deduction when contributing to an IRA, but the following limitations apply:

For Those Covered by an Employer Retirement Plan:

Filing Status	Full Deduction	Partial Deduction	No Deduction
Single	AGI < $62,000	$62,000 - $72,000	AGI $72,000+
Married, Jointly	AGI < $99,000	$99,000 - $119,000	AGI $119,000+
Married, Separate	N/A	$0 - $10,000	AGI $10,000+

For Those Not Covered by an Employer Retirement Plan, But Their Spouse Is:

Filing Status	Full Deduction	Partial Deduction	No Deduction
Married, Jointly	AGI < $186,000	$186,000 - $196,000	AGI $196,000+
Married, Separate	N/A	$0 - $10,000	AGI $10,000+

Non-Deductible IRA

Anyone who has earned income (from wages), regardless of his/her level of income or participation status in an employer-sponsored, qualified retirement plan, can make contributions to a Non-Deductible IRA. Earnings grow tax-deferred.

Required Minimum Distribution

At age 70½, traditional IRA holders are **required** to begin taking distributions.

Roth IRAs

Roth IRAs allow non-deductible (after-tax) contributions up to $5,500 ($6,500 if age 50 or older) in 2017 per person for those with earned income (from wages) who fall within certain Adjusted Gross Income (AGI) requirements as follows:

Filing Status	Qualify for Full Contribution	Qualify for Reduced Contribution	Do Not Qualify for Any Contribution
Single	AGI < $118,000	$118,001 - $132,999	AGI $133,000+
Married, Jointly	AGI < $186,000	$186,001 - $195,999	AGI $196,000+

Note that any amount contributed to a Traditional IRA reduces the amount that can be contributed to a Roth IRA. Also note that contributions to Roth IRAs can be made even after age 70½ as long as the contributor has earned income.

Roth Tax Advantages

Roth IRA contributions can be withdrawn tax-and penalty-free at any time. The earnings from Roth IRAs may be tax-free if they are qualified as summarized in the chart below:

Distribution of Earnings from Roth IRAs are Qualified and Tax Free if:		
The distribution of earnings meets **one** of the following: ▪ Made after you reach age 59½ ▪ Made to a beneficiary after your death ▪ Made because you are disabled ▪ Used by a first-time homebuyer to acquire a principal residence (subject to a $10,000 lifetime limit)	AND	You have had the Roth IRA for five years, beginning with the taxable year in which you first contributed to the Roth IRA

Earnings on the account are taxable only if and when there is a distribution that is not a qualified distribution.

Required Minimum Distributions (RMD)

Roth IRA owners are **not** required to begin taking distributions at any point in time.

Roth IRA Conversion

Amounts in Traditional IRAs may be converted to Roth IRAs, regardless of your income. Amounts in Traditional (deductible) IRAs will be included in income (and therefore taxable) but exempt from the early withdrawal tax.

Converted amounts must remain in the Roth account for at least five years after the transfer in order to be considered a "qualified distribution" and thus tax-free.

See the Appendix for more information on when to convert an IRA.

✓ EXERCISE

Answer the following questions about IRAs:

1. *Bob and Suzanne, both in their forties, are married and filing jointly. They wish to contribute to an IRA for 2017. Their AGI is $133,000 and they both have retirement plans at their place of employment.*

   A. Can they contribute to a Roth or Non-Deductible IRA?

   B. How much, if any, can they each contribute in 2017?

   C. Can they deduct IRA contributions on their tax return?

2. Both Traditional (deductible) and Roth IRAs have required minimum distributions (RMD), thereby preventing a retiree from keeping money in the IRA indefinitely.

TRUE FALSE

3. Roth IRAs are tax-deductible.

TRUE FALSE

4. *Steve is a single-filer with an AGI of $126,000 for 2017. He would like to convert his Traditional IRA (current balance $20,000) to a Roth IRA. Assume Steve is in the 28% Federal Tax Bracket.*

   A. Is Steve eligible to convert his Traditional IRA to a Roth IRA?

   B. Assume Steve makes the conversion in 2017 and decides to make a withdrawal of $27,000 in 2020. This is Steve's first and only Roth IRA. Will this withdrawal be subject to taxation? Penalties?

Answers can be found on page 71.

Home Ownership

Mortgage Interest and Points

Interest on a home acquisition mortgage up to $1 million, plus interest on home equity secured loans or lines of credit up to $100,000, is generally deductible on federal income tax returns. Points and loan fees paid to obtain a home acquisition mortgage are tax deductible in the year of purchase; but it is not required to deduct them in the year the debt was incurred.[1]

On a refinance loan, the points can only be written off incrementally over the term of the loan (i.e. 1/30 each year on a 30-year loan). When refinancing again, any remaining amortized points that haven't yet been deducted on the previous refinancing become fully deductible to the borrower.

The IRS cautions borrowers of no-equity loans. Interest can never be deducted on any portion of a mortgage debt that exceeds a home's fair market value.

For more information, refer to IRS Publication 936, *Home Mortgage Interest Deduction*.

✓ EXERCISE

Anna and Marc Wilson refinanced their mortgage and amortized $3,000 in points over 30 years, resulting in a tax deduction of $100 per year. Assume they refinanced again after three years, having deducted $300 in points.

1. **How much would Anna and Marc be able to deduct for that fourth year?**

Answers can be found on page 71.

Home Capital Gain Exclusion

Current Tax Law

Excludable Gains on Home Sale or Exchange	
Single	Married, Filing Joint
$250,000	$500,000

These exclusions are available *only* on the sale or exchange of a *principal residence*.

Prior rollover rules and the once-in-a-lifetime $125,000 exclusion for taxpayers age 55 and over have been repealed.

Definition of Principal Residence

The IRS defines your principal residence as the *main home*. It is the address used for voter and motor vehicle registration, tax returns, and employment. The principal residence is also the place where you spend the most time (except for temporary absences like vacations).

[1] A couple who paid 1.25 points (1.25% of the loan's face amount) to buy a home found their itemized deductions, including points, were less than the standard deduction for that year. They wanted to claim the standard deduction and amortize their points over the rest of the loan's life. The IRS, in a private-letter ruling, approved the amortization, or spreading out, of the points.

Eligibility Requirements

The home capital gain exclusion is allowed each time you sell or exchange a principal residence, although the exclusion generally may not be claimed more frequently than once every two years. There are certain eligibility requirements:

- The residence must have been owned and used as your principal residence for at least two out of the five years (combined) prior to the sale or exchange.
- You must prorate the capital gain exclusion for periods of “non-qualified use”. “Non-qualified use” is any time when the property was used as a rental home or vacation property before its use as a principal residence. This prevents you from claiming the capital gain exclusion for property used as a rental.
- You must recognize gain on any depreciation allowable from the rental or business use of a principal residence after May 6, 1997.
- Note that capital gain in excess of the exclusion amount may be subject to the 3.8% Unearned Income Medicare Tax for individuals with AGI over $200,000 and married couples filing jointly with AGI over $250,000.

Household Records

Keep good tax records and retain all home improvement receipts from the very beginning of home ownership. Your basis in a home increases by the value of any home improvements (but not repairs) made, decreasing potential capital gains tax liability.

Education

Tax Credits

Two elective income tax credits are provided for qualified tuition and related expenses (i.e. tuition and fees, but not room and board or books).

American Opportunity Tax Credit (HOPE Scholarship Credit)

Eligible taxpayers can claim a maximum credit worth up to $2,500 through 2017. The credit is calculated as follows:

- 100% of the first $2,000 in expenses and
- 25% of the next $2,000

Note: This credit replaces the former HOPE Scholarship credit of $1,800.

The credit is for qualified education expenses paid for you, your spouse, or a dependent, for the first four years of the student's post-secondary education in a degree or certificate program. The definition of qualified education expenses (for the American Opportunity tax credit only) has been modified to include tuition, fees, and course materials. The student must attend school at least half-time. A credit can be claimed for each person that qualifies.

2017's AGI Limits for the American Opportunity Credit are as Follows:

Filing Status	Full Credit	Reduced Credit	No Credit
Single	AGI < $80,000	$80,000 - $90,000	AGI $90,000+
Married, Jointly	AGI < $160,000	$160,000 - $180,000	AGI $180,000+

Lifetime Learning Credit

Eligible taxpayers can claim a maximum credit equal to up to 20% of $10,000 of qualified education expenses paid for undergraduate and graduate-level education for you, your spouse, or a dependent (limited to one credit per family each year). It also includes courses of instruction to acquire or improve job skills. The Lifetime Learning Credit can be claimed for an unlimited number of years and for just a single course.

2017's AGI Limits for the Lifetime Learning Credit are as Follows:

Filing Status	Full Credit	Reduced Credit	No Credit
Single	AGI < $56,000	$56,000 - $66,000	AGI $66,000+
Married, Jointly	AGI < $112,000	$112,000 - $132,000	AGI $132,000+

For more information, see IRS Publication 970 *Tax Benefits for Higher Education*.

Student Loan Interest Deduction

Interest due and paid on student loans (including refinances) will be tax deductible to graduates only for loans taken out for themselves, their spouse, or a dependent. This deduction (up to a maximum of $2,500) will be available even if you do not itemize. Married taxpayers must file jointly to take the deduction, and the deduction may not be claimed on the return of anyone who is claimed as a dependent on another's return.

2017's AGI Limitations are as follows:

Filing Status	Full Credit	Reduced Credit	No Credit
Single	AGI < $65,000	$65,000 - $80,000	AGI $80,000+
Married, Jointly	AGI < $135,000	$135,000 - $165,000	AGI $165,000+

Education Assistance

Employer Education Assistance

The employer education assistance exclusion of up to $5,250 per individual per calendar year applies to undergraduate as well as graduate-level courses.

Tax-Free Forgiveness of Educational Loans

Forgiveness of educational loans in exchange for public service is tax-free to the borrower. The lender forgiving the loan must be a tax-exempt entity that issued the loan to finance or refinance education costs. The student must work for a charitable organization or governmental entity in an area or occupation with unmet needs.

Children

Child Tax Credit

A maximum child tax credit of $1,000 per year is available through 2018 for each dependent child under 17 if your AGI falls within certain limits:

Filing Status	Full Credit
Single	AGI < $75,000
Married, Jointly	AGI < $110,000
Married, Separately	AGI < $55,000

The credit can be claimed for a child, stepchild, adopted child, grandchild, or eligible foster child for whom one also claims a dependency exemption. See the Appendix for more information on this child tax credit.

Dependent Care Tax Credit

The amount of eligible expenses to receive the dependent care credit is $3,000 for one qualifying dependent and $6,000 for two or more qualifying dependents. Also, the maximum credit is 20-35% of eligible expenses, depending on the parents' income.

Adoption Tax Credit

The adoption tax credit in 2017 is $13,570 per child adopted. This credit begins to phase out when MAGI is in excess of $203,540 and is completely phased out above $243,540. This credit is permanently allowed against the AMT. This credit is non-refundable, meaning that only those with a tax liability can benefit from the credit. You can carry any remaining credit forward for five additional years until the credit is used or time runs out.

College Student Dependent Status

If a taxpayer's child is a full-time college student under age 24, the taxpayer can claim them as a dependent as long as they provide more than half of the child's support[1]. For a parent's contribution to qualify as support, they must be able to prove the money was actually spent on items during the year—not invested.

✓ EXERCISE

Anna and Marc Wilson are married and file their taxes jointly. They have two children, ages 10 and 14, and their combined 2017 AGI was $139,800.

1. Do they qualify for the child tax credit? If so, how much?

Answers can be found on page 71.

[1] The value of the parent's housing counts towards support even though the student is in school.

Investments

Investments may provide the potential to make money from income in the form of interest and/or dividends as well as from capital appreciation. Taxes are generally due in the year in which income and/or net gains are realized on investments, except with investments that are held within tax-free or tax-deferred accounts. **This discussion on investments will focus on those held in taxable accounts.**

Taxation of Investment Income

Stock Income

Stocks that pay a dividend generally are taxed to the investor in the year received.

Bond Income

Bond Type	Tax Consequences
Corporate	Interest income is fully taxable.
Treasury	Interest income is exempt from state and local taxes.
Savings	Interest income is exempt from state and local taxes. Federal tax is deferred on the interest income until the bonds are redeemed (unless you qualify for the special savings bond tax break). See the Appendix for more information.
Federal Agency	Interest income on Ginnie Mae, Fannie Mae, and Freddie Mac bonds is fully-taxable. However, other federal agency issues may be exempt from state and local taxes.
Municipal	Interest income is exempt from federal taxes. If the investor resides in the state where the bond is issued, it is also exempt from state taxes. Keep in mind that interest earned on private activity municipal bonds is subject to AMT if issued after August 7, 1986.

Taxable vs. Tax-Free Income

It is important to know your marginal tax rate when trying to select between taxable bonds or bond funds versus tax-exempt (municipal) bonds or bond funds. You need to perform a calculation using current bond yields along with the marginal tax rate to determine which bond investment provides a higher return after taxes.

✓ EXERCISE

Assume Anna and Marc, in the 25% marginal tax bracket, are contemplating whether to invest in a taxable bond fund yielding 6.3% versus a tax-free municipal bond fund yielding 5.0%. Fill in the chart below to help them determine if municipal (tax-exempt) bonds or taxable bonds will provide a higher after-tax rate of return for them.

1. Enter the yield on a municipal bond or fund	
2. Enter your marginal federal tax rate	
3. Subtract Line 2 from 100%	
4. Divide Line 1 by Line 3	
5. Enter the yield on a taxable bond or fund	
6. If Line 5 is larger than Line 4, the taxable bond or fund provides a higher after-tax return. If line 5 is smaller, the municipal bond or fund provides a higher after-tax return.	

Answers can be found on page 72.

Mutual Fund Income

Mutual funds may earn income in the form of dividends, interest, and/or capital gains. Net income earned by a mutual fund is generally distributed and taxable annually to any shareholders on record. Dividends and interest are commonly distributed quarterly, while capital gains distributions are commonly distributed at the end of each year. Find out the dates for distributions, known as record dates. If considering a sizable investment in a mutual fund, it may be prudent to hold off until after the record date to avoid receiving any taxable distributions.

Important Notes About Mutual Fund Capital Gains Distributions:

- **Stock funds often pay higher capital gains distributions in a falling market**. This happens in part because many funds have sold securities that they purchased a few years ago at much lower prices.
- **A change in management could signal that a fund will realize more capital gains than usual, since new fund managers tend to sell stocks they do not favor.**
- **Tax-efficient or tax-managed mutual funds try to invest in ways that minimize taxes.** One way to achieve tax efficiency is by having low portfolio turnover. The turnover rate can be found in the fund's prospectus. A 100% rate means the fund holds its investments, on average, for one year. A 50% rate means the fund holds its investments, on average, for two years. Index funds pay some of the smallest capital gains distributions since they have low turnover.
- **Besides considering turnover, analyze the after-tax performance reports that mutual funds are now required to furnish in prospectuses.** After-tax performance reports assume an investor is in the highest federal tax bracket (i.e. 39.6%) and disregard state taxes.

The Wash Sale Rule

The Wash Sale Rule prevents you from claiming a loss on the sale of a security (stock, bond, mutual fund) if replacement shares of a substantially-identical security are purchased on the day of the transaction, 30 days before, or 30 days after the sale. This is also referred to as the 61-day blackout period.

See IRS Publication 550 for details.

✓ EXERCISE

1. **High turnover mutual funds best belong in taxable accounts.**

   TRUE FALSE

2. **Investors in higher tax brackets may want to consider municipal bonds that generally provide tax-free income.**

   TRUE FALSE

3. **Tax efficient mutual funds, such as index funds, do little trading, versus high turnover funds, which tend to generate capital gains.**

   TRUE FALSE

4. **Buying individual stocks over mutual funds provides less control over taxes.**

   TRUE FALSE

5. **Buying individual stocks generally involves doing more extensive research and monitoring than mutual funds.**

   TRUE FALSE

6. *Assume Maria Garcia buys Growth Fund A on December 10th. The company then makes a substantial capital gain distribution two days later on December 12th—its only distribution during the year.*

   How much of a taxable distribution would Maria receive?

   A. A taxable distribution for her prorated portion of the fund she owns.

   B. A very minimal taxable distribution since she was only in the fund for two days.

Answers can be found on page 72.

Investment Gains and Losses

There are certain methods allowed by the IRS to determine which shares are being sold, depending on whether the shares are stocks, bonds, or mutual funds. These methods determine how much gain or loss is generated from an investment sale, and each method can produce a different result.

Method*	Stocks	Bonds	Mutual Funds
FIFO (First In, First Out) Used when you don't indicate or can't determine the purchase price of the shares being sold. The IRS presumes the shares sold are the ones purchased first. FIFO creates the biggest tax bill when share prices have risen over time, but, FIFO may be the best method when prices have declined.	✓	✓	✓
Specific Identification In order to use this method, you must keep very good records that list the purchase date, amount paid (including any commissions, fees, transfer costs, or recording fees), share price, and number of shares, so that specific shares can be identified when they are later sold. It is important that you specify shares to redeem at the time you sell and follow up with an email to the investment firm. A copy of this email should be kept with your tax documents. This method generally results in the lowest tax bill. It also allows investors who have seen a fund's price fall below their highest purchase to recognize a loss to offset other gains.	✓	✓	✓
Single-Category Averaging Most mutual funds use this method to calculate taxes. The basis of all your shares are totaled and then divided by the number of shares owned. This is generally reported on your monthly and year-end statements. The average cost must be recalculated every time shares are sold.			✓
Double-Category Averaging Although rarely used, this method provides more control to lessen taxes. You calculate the average basis for short-term shares (held for one year or less) and for long-term shares (owned for more than one year). When prices rise, short-term shares have a higher basis. When prices fall, long-term shares have a higher basis.			✓

Examples of all of these methods are included in IRS Publication 550, *Investment Income and Expenses*.

** Once a method is chosen, you must continue using that method for as long as you owns shares in the fund. However, you can use different methods for different funds.*

✓ EXERCISE

Anna and Marc Wilson made the following purchases into the no-load ABC Fund:

Date Purchased	Shares Purchased	Cost Per Share
December 2014	50	$10 Each
December 2015	50	$20 Each
December 2016	50	$30 Each
June 2017	50	$25 Each

1. **In December of 2017, Anna and Marc decide to sell 50 shares at $35 each. If they use the FIFO method, the shares purchased on which date will be sold?**
   A. December 2014
   B. December 2015
   C. December 2016
   D. June 2017
2. **After selling the first group of ABC fund shares using the FIFO method, Anna and Marc can choose which method(s) to sell future shares?**
   A. FIFO
   B. Single-Category Averaging
   C. Double-Category Averaging
   D. Specific Identification
   E. Any of the Above
3. **Under the Specific Identification method, which shares could they sell hoping to *minimize* gain?**
   A. December 2014
   B. December 2015
   C. December 2016
   D. June 2017
4. **Assume Anna and Marc begin to buy shares monthly and then sell large blocks of shares when their first child attends college in five years. Which method will most likely be the easiest for them to use, since they have kept their year-end statements which provide a cumulative summary of activity for each year they have owned the fund?**
   A. FIFO
   B. Single-Category Averaging
   C. Double-Category Averaging
   D. Specific Identification
   E. Any of the Above

Answers can be found on page 72.

General Investment Tax Planning Tips

I. **Consider holding ordinary income-generating investments, such as bonds and ordinary dividend-paying investments in tax-favored accounts like IRAs and employer retirement plans.**

II. **Consider holding growth investments, such as stocks and stock funds, in taxable brokerage accounts.**

III. **Consider harvesting capital losses to offset gains.**

   A. Be aware of capital loss limitations.

   B. Be aware of the wash sale rules, noted previously.

   C. Loss harvesting is secondary to your overall financial goals.

IV. **Consider "timing" your capital gains by:**

   A. Turning short-term gains into long-term gains. You must willing to stay invested for the additional time period and willing to accept the associated stock market risk to utilize the favorable long-term gains rates.

   B. Selling your shares in the following calendar year rather than the end of the current year, thereby deferring the tax liability and payments into the next year.

V. **Consider the Unearned Income Medicare taxes** that may be imposed on your investments, if your income is above certain thresholds. If you are close to the threshold, delaying the investment's unearned income into the following year, may allow you to avoid the Unearned Income Medicare tax provided the thresholds will not be exceeded in the following year. The 3.8% Unearned Income Medicare Tax applies for individuals with AGI over $200,000 and married couples filing jointly with AGI over $250,000.

VI. **Consider maximizing contributions to one's:**

   A. Employer Retirement Plan—401(k), 403(b), 457

   B. Roth IRA

   C. Traditional Deductible IRA

   D. 529 plan

   E. Health Savings Account (HSA)

Tax implications for investments are important to consider…
but should not be driving the overall financial plan for your goals.

✓ EXERCISE

1. **In the current year, Maria Garcia decides to buy 100 shares of stock at $50 a share on February 1. On February 15, she buys 100 more shares at $60 a share. These are the only two stock purchases for this particular company that Maria has ever made. Maria then sells 50 shares on March 1 when the current stock price is $70 a share. What is her taxable gain?**

2. **It is possible to choose from four different methods to figure a taxpayer's gain or loss when selling mutual fund shares for the first time within that particular fund.**

   TRUE FALSE

3. **Anna and Marc Wilson own 50 shares of common stock they bought for $20 each. The stock splits, distributing one new share of common stock for each share held, bringing Anna and Marc to 100 shares. What is their basis in each share now?**

4. **The bigger a taxpayer's basis, the more potential tax liability the taxpayer has.**

   TRUE FALSE

5. **Maria has lost money on the current S&P 500 fund she owns in a taxable account and she has noticed that the expenses are twice as high on hers versus another fund she has been researching. Her plan in the current year is to sell her existing S&P 500 fund on June 1 and buy the other financial institution's S&P 500 fund June 10 since it has very low expenses and thus has lost a lot less in value. Is this a smart move on Maria's part? Why or why not?**

6. **A taxpayer can deduct losses that are incurred in IRAs.**

   TRUE FALSE

7. **One of Anna and Marc Wilson's stocks owned in their brokerage account filed for bankruptcy protection in 2017 and is currently trading on an exchange for $1.00 per share. Can they write it off as worthless in 2017?**

8. **Capital losses may be used to offset capital gains on a dollar-for-dollar basis.**

   TRUE FALSE

9. **What amount of net capital loss can Maria Garcia, a single taxpayer, deduct against ordinary income in 2017?**

10. **What amount of net capital loss can Anna & Marc Wilson, who are married filing jointly, deduct against ordinary income in 2017?**

Answers can be found on page 72.

Tax-Advantaged Investments

There are generally three ways investments may offer tax advantages:

Pre-Tax	Investment vehicles that allow money to be invested without owing taxes currently.
Tax-Deferred	The delay of any tax liability until a future date.
Tax-Free or Tax-Exempt	No tax liability is incurred.

Keep in mind, however, that while taxes should be an important consideration when making financial decisions, they should never dictate those decisions.

✓ EXERCISE

Check off whether the following investments and/or investment vehicles offer pre-tax, tax-deferred, or tax-free advantages. More than one tax advantage may be checked off.

Investment/Vehicle	Pre-Tax	Tax-Deferred	Tax-Free*
Savings Bonds			
401(k) Plan			
Tax Deductible IRA			
Non-Dividend-Paying Growth Stocks			
Roth IRA			
Municipal Bonds			
403(b) Plan			
Non-Deductible IRA			
Treasury Bonds			
457 Plan			

Answers can be found on page 72.

** Free of federal, state, and/or local income taxes*

Charitable Giving

Donations to charity are tax-deductible expenses. These donations can reduce your taxable income and thus lower your tax bill. Not everyone will be able to deduct charitable contributions, however. You must itemize deductions in order to claim any contributions made to charity.

Qualifying Organizations

To qualify as a charitable deduction, a gift must be made to a qualified, tax-exempt charity. To verify an organization's tax-exempt status and eligibility to receive tax-deductible charitable contributions:

- Ask an organization for a copy of their exemption letter
- Check the IRS exemption list, available online at

https://www.irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check

Some organizations will not be listed because they need not apply for tax exemption. These include churches, temples, synagogues, and mosques.

Evaluating a Charity[1]

In addition to verifying an organization's tax-exempt status and eligibility to receive tax-deductible charitable contributions, it is important to evaluate a charity to make more informed giving decisions with regard to how they:

- Manage their organization
- Spend their money
- Cooperate with regard to public disclosure of documents and information

These three national agencies offer listings and ratings of charities with evaluation guides:

CHARITY WATCH A ★ RATED

American Institute of Philanthropy
(773)-529-2300
www.charitywatch.org

BBB ACCREDITED CHARITY bbb.org/charity

BBB Wise Giving Alliance
(703)-276-0100
www.give.org

GUIDESTAR

Guidestar
(757)-229-4631
www.guidestar.org

[1] *Financial Knowledge and your company are not affiliated with any products or services and the following should only be used as a reference.*

Recordkeeping Requirements

The types of records you must provide to the IRS during an audit vary depending on the type and amount of the donation. Here is a summary of the records required:

Cash Donations

For cash contributions **under $250**, you must keep the following records:

1. Canceled check, bank statement, or credit card statement showing the amount paid, date paid, and the name of the charity to which you gave money **or**
2. Written receipts or acknowledgment letters from the charity showing the date and the amount of your contribution

For cash contributions of **$250 or more**, you must have a written acknowledgment from the charity. *A canceled check is not sufficient.* Acknowledgment letters must state:

1. Amount of cash donated
2. Whether the charity provided any goods or services in exchange for the donation
3. Description and good faith estimate of the value of goods or services that the charity provided, if any

Non-Cash Donations

For non-cash contributions worth less than $500, you must get and keep a receipt from the charitable organization showing:

1. The name of the charitable organization
2. The date and location of the charitable contribution
3. A reasonably detailed description of the property

For non-cash contributions worth $500 to $5,000, in addition to the information listed above, you will also need to keep records that establish:

- How the property was acquired (such as purchase or inheritance)
- Date the property was acquired
- Your cost or adjusted basis in the property
- Fair market value of the property and how you figured the value
- Amount claimed as a tax deduction

You must attach IRS Form 8283 if total non-cash contributions exceed $500. A copy of form 8283 is included in the Appendix.

For non-cash contributions of **$5,000 or more**, a written appraisal from a qualified appraiser is required to substantiate the value of the deduction.

Condition of Non-Cash Contributions of Property

Donations of property are allowed only if the property is in good or better condition. No deduction will be allowed for items donated in poor quality. The IRS has developed classifications of quality to help you determine the value of a donated good:

High	**Style**	Top brands/manufacturers, features, materials, etc.
	Condition	Looks new, no noticeable wear
	Use	Is still useful for the average consumer today
Medium	**Style**	Mid-level brands/manufacturers, features, materials, etc.
	Condition	Shows slight wear
	Use	Could be used by most consumers today

The IRS has been authorized to deny charitable donations of clothing and household goods that are of minimal value, such as socks and undergarments.

Donating a Vehicle

If donating a car, truck, boat, airplane, or other vehicle, and the vehicle is worth more than $500, you must receive a written acknowledgement from the non-profit before a tax deduction can be claimed. The deduction allowed is either the amount the charity realizes from selling the vehicle or, if the vehicle is used by the charity, the fair market value of the vehicle.

Computers

In addition to deducting the value of any computer and peripherals donated, you may be entitled to deduct warehouse or shipping costs. See the Appendix for a partial list of organizations that accept computers and peripherals.

Securities Donations

When appreciated stock is donated, as long as you have owned the shares for more than one year, a tax deduction is generally allowed for the full value of the marketable securities, and capital gains tax on the profits can be avoided. For depreciated securities, consider selling them to take the tax loss first, then give the cash to a charity.

Volunteer Activities

Although the cost of time cannot be deducted, a charitable deduction can be taken for automobile expenses for volunteer activities (computed at 14 cents per mile) plus parking fees, tolls, other travel costs, and phone expenses. You can also deduct any out-of-pocket costs paid for supplies.

Sample Valuation Guide for Donated Items

Appliances	High	Medium	Furniture	High	Medium
Air Conditioner	$90.00	$55.00	End Table	$50.00	$30.00
Dryer	$90.00	$65.00	Dresser & Mirror	$100.00	$60.00
Microwave	$50.00	$30.00	Folding Beds	$60.00	$40.00
Refrigerator	$250.00	$160.00	High Chair	$50.00	$30.00
TV	$225.00	$150.00	Play Pen	$30.00	$16.00
Washer	$228.00	$133.00	Sofa	$200.00	$115.00
Children	**High**	**Medium**	**Men**	**High**	**Medium**
Blouses	$8.00	$4.00	Jackets	$25.00	$16.00
Coats	$20.00	$12.00	Pajamas	$8.00	$5.00
Dresses	$12.00	$6.00	Pants	$12.00	$8.00
Jackets	$25.00	$14.00	Raincoat	$20.00	$12.00
Jeans	$12.00	$7.00	Shirts	$12.00	$7.00
Pants	$12.00	$5.00	Shoes	$25.00	$14.00
Shirts	$6.00	$4.00	Slacks	$12.00	$8.00
Shoes	$9.00	$6.00	Suits	$60.00	$35.00
Skirts	$6.00	$4.00	Sweaters	$12.00	$7.00
Snowsuits	$19.00	$12.00	Swimsuit	$8.00	$5.00
Household Goods	**High**	**Medium**	**Women**	**High**	**Medium**
Bedspreads	$24.00	$14.00	Bathing Suits	$12.00	$8.00
Blankets	$15.00	$9.00	Blouse	$12.00	$7.00
Chair	$35.00	$25.00	Boots	$5.00	$3.00
Pillows	$8.00	$5.00	Coat	$40.00	$25.00
Sheets	$8.00	$5.00	Dress	$20.00	$12.00
Towels	$4.00	$2.00	Handbag	$20.00	$10.00

Source: Salvation Army USA

Not Tax Deductible

Contributions are not tax deductible if given to any of the following:

- Political parties, political campaigns, or political action committees
- Contributions given to individual people
- Fees or dues paid to professional associations
- Contributions to labor unions, chambers of commerce, or business associations
- Contributions to for-profit schools and hospitals
- Contributions to foreign governments
- Fines or penalties paid to local or state governments
- The value of time for services rendered to a non-profit

Limits on the Charitable Contribution Deduction

Generally, you can deduct:

- Cash contributions up to 50% of AGI
- Property contributions 30% of AGI
- Contributions of appreciated capital gains assets in full up to 20% of AGI

Charitable contributions in excess of these limits can be carried over to the following tax year. The excess contributions can also be carried over for a maximum of five years.

✓ EXERCISE

Anna and Marc gave away $1,300 in cash to various charities throughout the year. They have also been donating household goods and clothing for years. They have gathered the items for 2017 in six garbage bags, and Marc takes them to a donation center. The clerk hands Marc a donor receipt to fill in his name, address, and items that are being donated. Marc lists "six bags of misc. clothing and kitchen items" and estimates 60 items for a total of $120 ($2 each). This is the only non-cash charitable contribution they made in 2017.

1. **Are Anna and Marc maximizing their non-cash deduction to this charity?**

2. **What additional steps, if any, could they have taken legally to better maximize the charitable deduction?**

3. **What records does the IRS require that Anna and Marc keep to back up this deduction?**

4. **What additional documentation would help justify and substantiate this deduction?**

5. **Will Anna and Marc need to file Form 8283?**

Answers can be found on page 73.

Suggested Action Items

The following are suggestions only. Whether you wish to take action should be based on your own individual situation and circumstances.

1. Determine the amount of federal taxes withheld versus the amount of taxes owed for the last two years and adjust your W-4 accordingly

2. Create a file for 2017 tax information and keep it handy during the year

3. Start a personal spreadsheet to track all stock purchased and sold in non-retirement accounts. Include securities acquired through ESPP, stock awards, and stock options

4. Calculate your modified adjusted gross income (MAGI) from last year

5. Organize past tax returns. Keep the supporting documentation for your tax returns for the last seven years, but keep the tax returns themselves forever

6. Consider increasing deductible contribution percentages to retirement accounts to help save on taxes

7. Calculate how much capital gains tax you'd owe (if any) by selling your personal residence and using the home capital gains exclusion

Appendix

Standard Deduction

The standard deduction is used by those who do not itemize. According to the IRS, about two-thirds of all tax returns filed claim the standard deduction; only one-third claim itemized deductions. The largest itemized deduction is interest payments, which represent about 37.5% of the total. The amount of the standard deduction is based on the taxpayer's filing status. Standard deductions are indexed annually for inflation.

Filing Status	2017	2016
Single or Married Filing Separately	$6,350	$6,300
Head of Household	$9,350	$9,300
Married Filing Jointly	$12,700	$12,600

Frequently Overlooked Itemized Deductions

Qualified Expenses	
Office furnishings, supplies, and decorations. Business gifts up to $25 per year per person	Job hunting expenses when looking for a new job in your current line of work, even if your search is not successful. Costs can include agency fees, resume preparation, travel to and from interviews, meal and entertainment expenses, etc. *Clothing, however, is not deductible*
Education costs (i.e. tuition and fees) for courses that improve work skills. No deductions are allowed for courses that qualify one for a new line of work	Some vacation travel expenses (Combined with a domestic or foreign business trip or travel expenses associated with a professional convention, charity work, or educational seminar
Dues to professional/trade organizations or unions	Using one's car for business purposes[1]
Dry cleaning costs from out-of-town business trips	Computers (for self-employed, those with a side-line business, or a salaried worker where the computer is a condition of employment)
Home office (used for administrative or management activities of a trade or business)	Investment expenses
Uniforms and special work clothes	Interest on margin loans (deductible to the extent of investment income each year)
Charitable contributions (Including volunteer expenses for travel and supplies)	Medical and dental expenses
Commuting to a second job or business classes[1]	Tips paid to chauffeurs, doormen, parking attendants, delivery people, etc. on business trips
Local transportation fares for non-commuting travel, for work or job-related classes	Unreimbursed casualty or theft loss
50% of business-related costs at a club	

[1] *Mileage at the rate of 53.5 cents/mile for documented business driving expenses in 2017. Commuting costs are not deductible.*

Itemized Deduction Phaseout

The Itemized Deduction Phaseout reduces your itemized deductions by 3% of the amount your Adjusted Gross Income (AGI) exceeds a threshold, up to a maximum reduction of 80%.

Filing Status	Threshold AGI
Single	$261,500
Head of Household	$287,650
Married, Filing Jointly	$313,800
Married, Filing Separately	$156,900

Personal Exemptions

There are three kinds of personal exemptions that may be claimed by a taxpayer: exemptions for yourself, exemptions for your spouse, and exemptions for your dependents. You can generally claim at least one personal exemption unless you are eligible to be claimed as a dependent on another taxpayer's return. The personal exemption amount is $4,050 in 2017.Personal exemption amounts are indexed annually for inflation.

Personal Exemption Phaseout

The Personal Exemption Phaseout (PEP) reduces personal exemptions ($4,050 in 2017) for both taxpayers and their dependents by 2 percent for each $2,500 (or part of $2,500) that adjusted gross income (AGI) exceeds the threshold depending upon filing status.

Filing Status	Phaseout Begins	Exclusion Eliminated
Single	$261,500	$384,000
Head of Household	$287,650	$410,150
Married, Filing Jointly	$313,800	$436,300
Married, Filing Separately	$156,900	$218,150

Employment Taxes for Household Workers

Household workers are nannies, babysitters, maids, home healthcare workers, gardeners, and others. If a worker has their own tools, performs a job without instruction, and offers the same services to a number of other people, the worker is considered a **contractor** and responsible for paying their own taxes. Get a signed letter annually from them which references they are a contractor responsible for paying their own taxes.

If you provide the place and tools for work (home, toys, medical supplies, etc.) and have the right to control how the work is performed, then the IRS considers you an **employer**. The worker is considered an **employee** since they report to that person. Note that this is different than hiring a company that in turn employs the worker.

If you pay a household worker who is considered an employee at least $2,000 in 2017 you are required to report and pay Social Security & Medicare taxes and to file Schedule H. Wages to a spouse or child age 20 or younger or most employees age 17 or younger are exempt. IRS Publication 926, *Employment Taxes for Household Employers*, may be helpful. If unsure of the status of a worker, you can file Form SS-8 and the government will decide if a person is a contractor or employee. If a worker is considered an employee, an Employer Identification Number must be obtained using Form SS-4, in addition to a state employer number.

Employment taxes (Social Security, Medicare, Federal unemployment insurance tax, state unemployment, and state disability insurance tax) will be owed if you pay a household worker cash wages of $2,000 or more annually in 2017. Schedule H of Form 1040 must be completed to compute the amount of Social Security and Medicare tax due on a household employee's wages. The Social Security tax is 6.2% for the employer and employee and is owed on wages up to $127,200 in 2017. The Medicare tax is 1.45% each and is owed on all wages. Federal unemployment taxes must be paid if the tax liability is $100 or more in any quarter. State unemployment taxes and disability insurance taxes may also be required depending on the state. In addition, the employee owes federal—and where applicable, state—taxes on all income.

You are generally not required to withhold these taxes, but if taxes are withheld, the employee must complete IRS Form W-4 to determine the correct amount to withhold. Then annually, an employer must furnish the employee and Social Security Administration with a copy of Form W-2 for total wages paid. The W-2 is due to the employee by the end of January and the Form W-3 is due to the Social Security Administration by the end of February. W-2 forms are available at the IRS website **www.irs.gov** or by calling **(800) TAX-FORM**.

Complete INS Form I-9 to verify that an employee can legally work in the U.S. File a new hire report with the state's labor department and some states require employers to buy worker's compensation insurance.

Alternative Minimum Tax

Because AMT is so cumbersome to calculate, it's difficult to know from year-to-year which taxpayers will be subject to this tax. However, individuals with substantial tax preferences and/or adjustments could be subject to AMT. Taxpayers who do the following are potential AMT candidates:

- Exercise incentive stock options granted by their employer
- Earn substantial amounts of tax-exempt interest from private municipal bonds issued after 8/7/86.
- Report substantial itemized deductions from state and local income and property taxes paid or miscellaneous deductions
- Incur a large amount of long-term capital gains and are in higher income tax brackets (33% or higher)
- Have numerous children
- Take interest deductions from second mortgages

Please see the IRS instruction booklet for Form 1040 to determine if Form 6251, *Alternative Minimum Tax—Individuals* is required. You may sometimes take a credit against your regular tax for AMT paid in prior years. AMT credits may not be used to reduce any alternative minimum tax liability. The credit is limited to the portion of the AMT due to items that defer rather than cause a permanent exclusion of income from tax. Examples of deferral items are accelerated depreciation and the bargain element on incentive stock options. Exclusion items, none of which qualify for the credit, include personal exemptions, certain tax-exempt interest and depletion. If eligible for this credit, it is reported in the tax credit section of the IRS 1040 Form.

Frequently Overlooked Tax Deductions

Unreimbursed Employee Expenses

Business expense deductions can be claimed if an employer does not reimburse for them. Common work-related expenses that are often overlooked include general business and special clothing needs, travel, meals, tips, education, and job hunting. Receipts are no longer required for expenses of less than $75 as long as the expense amount and business purpose are recorded in a business journal. Note that expense reimbursements from an employer are 100% tax-free. It may be in your best interest to receive an expense account or increased expense account instead of a raise. The company does not owe employment taxes on reimbursement payments and you won't be subject to the 2% miscellaneous deduction hurdle.

Charitable Contributions

Contributions to qualified charities are generally fully deductible, unless more than 50% of AGI is gifted. Although the cost of time cannot be deducted, automobile expenses for volunteer activities, which are computed at 14 cents per mile in 2017 plus parking fees and tolls, can be deducted. Keep a log of mileage and/or receipts if paying for transportation. Any out-of-pocket costs for supplies provided can also be deducted.

Travel Expenses

Business Travel: Lodging and meals spent vacationing generally cannot be deducted, but the entire cost of getting there can be. However, if conducting business on Friday and Monday, 50% of meals & entertainment expenses and 100% of lodging on Saturday and Sunday can be deducted even if those days were spent conducting leisure activities. The only expenses eligible for deduction are those incurred at the destination directly related to business. If traveling with a spouse, expenses can be deducted that would have been incurred anyway such as a rental car or hotel room. Those incurred only by a spouse, such as airfare, cannot be deducted. If the *primary* purpose of a trip is pleasure, *none* of the travel costs are deductible.

Foreign Travel: If a business trip lasts no more than 7 days (not counting the day leaving but counting the day returning) or if spending less than 25% of the time vacationing, you generally don't need to divide travel costs.

Charitable Travel: Travel to a convention can be written off as a charitable contribution if you are a representative or delegate. Volunteer-oriented vacations can be tax deductible as long as there is no meaningful component of personal pleasure or recreation associated with the excursion.

Out of Town Educational Seminars: Travel costs can be deducted if the education is needed to upgrade skills in a current job and the seminar is the primary purpose for the trip. The costs of attending investment, political, or social conventions are not deductible. However, people who give investment advice for a living generally can deduct such a trip as a business expense.

Shareholder Meeting Travel: If fulfilling a function at the meeting, (i.e. presenting or opposing a resolution), you are probably eligible for some expense deductibility. To deduct airfare, a taxpayer would have to fly in and stay just long enough to attend the meeting and then fly back home. If a stay is extended for vacation, a taxpayer would generally be able to deduct one hotel night (before the meeting) plus transportation expense to travel to the meeting and back. If attending the meeting as an onlooker, there is no expense deductibility.

Moving Expenses

You don't need to itemize to claim a moving expense deduction. To take a moving expense deduction, two tests must be passed:

1. **Job Location Distance Test**: The new job location (staying with the same employer, changing employers, or becoming self-employed does not matter) must be at least 50 miles farther away from the old home than the old job location was. The distance from the new home to the new job location is irrelevant.
2. **Work Time Test**: The taxpayer must work full-time at least 39 weeks within the 12 months after the job-site changes in the vicinity of the new job location. The employment can be with more than one employer, but time spent looking for work does not count. Part-time employment does not count either. **IRS Example:** Suppose an old residence was five miles from an old job location, but a new job is located 55 miles away. The taxpayer *does* meet the job location distance test.

For a qualified move, a taxpayer is generally allowed to deduct the cost of direct expenses (including ordering cable and internet service, disconnecting and connecting utilities, storing and insuring household items for up to 30 days, shipping cars and pets, gasoline costs incurred during the trip to a new home, lodging for the household during the move, tolls, and parking fees). Indirect moving expenses (including house-hunting trips, meals, temporary housing, costs of selling or leasing an old or new home) are no longer tax deductible. If you recently moved or are planning to move, review IRS Publication 521 to find out which of moving expenses may be deductible. Moving expense allowances given by employers are fully taxable as income. If, however, a taxpayer has accounted to his or her employer for deductible moving expenses and received a reimbursement check, the payment is not taxable as income.

Home Office Deduction

People that use their home office for administrative or management activities of a trade or business, with no other fixed place where they conduct substantial administrative or management activities, can now take a home office deduction. Even if you have a regular full-time job with an employer, a sideline job can support the deduction.

Computers

You stand the best chance of writing off computer costs if you're self-employed or have a sideline business. In order for a salaried worker to deduct computer costs, the computer must be required by a person's employer "as a condition of employment". Generally, that means the computer must be for the employer's convenience, not the employee's (i.e. If the taxpayer has access to an office computer at night, the IRS says the computer is for the taxpayer's own convenience, not his or her employer's).

To get a deduction for a computer, the machine must be used for a legitimate business purpose—and the taxpayer has to be able to prove it. It is a rare person who can deduct part of the cost of their computer for investing or tax usage. Even if planning to use a new computer 100% for such purposes, a taxpayer must generally spread the deduction over six years. The special all-at-once Section 179 deduction is not available for non-business uses. Keep good records. Your case will be stronger if your tax return shows clear evidence of investing—being an active trader and generating capital gains and losses on trades, or dividend and interest income.

Investment Expenses

Many investment expenses fit into the category of miscellaneous itemized deductions and can be deducted to the extent that they exceed 2% of total AGI. Some of these expenses include: fees for tax and investment advice, money management services, dividend or automatic reinvestment plans, custodial and trustee fees, safe deposit box costs, phone and postal expenses for managing accounts, subscriptions to investment publications, online services, and newsletters. Expenses that are incurred from attending investment seminars and conventions are not allowed as deductions.

Interest on Margin Loans

The interest paid on borrowed money to buy securities is deductible to as much as the amount of investment income in a year. If little or no investment income is earned in a year, you can carry any interest not yet deducted into the future indefinitely. Interest payments are only deductible from investment income and not capital gains. Keep in mind that margin interest cannot be deducted if a brokerage firm added it to the loan balance. Margin loan interest can only be deducted in the year in which it was paid. However, a broker could use dividends, interest, or sales proceeds generated in a brokerage account to pay off the margin interest as well.

For example: Assume a taxpayer pays $100 in margin interest in 2017 and has $70 in investment income that year. $70 of the margin interest is deductible in 2017 and the remaining $30 can be carried forward and deducted against future investment income. If dividend earnings are used to increase the margin interest deduction, *ordinary income taxes* will need to be paid on those dividends.

Medical and Dental Expenses

Unreimbursed medical and dental expenses are deductible only to the extent that they exceed 10% of AGI. The standard rate for use of a car for medical reasons is 17 cents/mile in 2017. Per IRC Sec. 213, Rev. Rul. 2000-24, certain transportation costs and fees paid by a parent for a medical conference regarding a child's chronic disease are deductible. The deductible expenses include transportation to the conference city, local transportation to the conference site, and registration fee. The meals and lodging while attending the conference are only deductible if a person receives medical care while traveling. The IRS has recently decided to allow certain weight loss costs to qualify for medical expenses retroactively if a doctor declares that the taxpayer is obese or must lose weight to treat certain medical conditions.

Health Savings Accounts

You must have a high deductible health plan (HDHP) in order to qualify for a Health Savings Account (HSA). The IRS defines a HDHP as: a minimum deductible of $1,300 for an individual or $2,600 for a family in 2017 with maximum out-of-pocket expenses of $6,550 for an individual and $13,100 for a family. Additionally, you must be under age 65 and not eligible for Medicare. You cannot be covered by any other health plan to be eligible for an HSA. You may not be claimed as a dependent on another person's tax return. Contributions are pre-tax and are allowed to the amount of the deductible with maximum amounts of $3,400 for singles and $6,750 for a family in 2017. Individuals 55 and older may contribute and deduct an additional $1,000 catch up contribution. Qualified withdrawals for health care are tax-free. Prior to age 65, non-medical withdrawals are taxable and subject to penalty.

Casualty and Theft Losses

A tax-deductible casualty loss must result from a sudden, unusual, or unexpected event. However, if insurance paid for the total loss, then a casualty loss income tax deduction cannot be claimed. Only uninsured and casualty losses are deductible.

When the President declares a disaster, affected taxpayers can deduct their uninsured casualty loss either in the tax year the event occurred or in the previous tax year (usually resulting in an income tax refund). These losses are deductible to the extent that they exceed 10% of AGI and $100 for each occurrence, and the insurance company cannot reimburse them. In addition, the casualty loss deduction is limited to the basis in the property. If the individual has insurance and elects not to submit it to the insurance company, the person is not allowed to use the casualty loss form.

Many individuals do not realize casualty losses include the replacement cost of trees and shrubs damaged by storms or fires; automobile accidents if one was not negligent; loss of bank accounts due to insolvency of a bank; fire damage, earthquake damage, storm damage from hurricanes and tornadoes, flood damage, and theft losses. Note that the IRS frequently audits casualty losses. The best proof of loss includes repair bills or estimates if the work has not been performed yet, police reports, newspaper articles, photos, and appraisals of before and after values. Use IRS Form 4684 to claim a personal casualty loss.

401(k), 403(b), and 457 Plans

Year	Contribution Limit	Catch-Up Contributions for Age 50+*
2017	$18,000	$6,000

* *This catch-up rule does not pertain to 457 plan participants in the 3 years before retirement. The limit in the final 3 years is **twice** the regular contribution limit.*

Vesting of Employer Matching Contributions

Matching funds in 401(k) and other employer retirement plans are fully vested after three years of service with the company. Alternatively, an employer can provide vesting gradually, beginning with the employee's second year of service and ending after six years of service.

Hardship Withdrawal Suspension

Deferrals can only cease for 6 months after a hardship withdrawal.

Rollovers

Retirement accounts can now be consolidated via a rollover between 401(a), 401(k), IRA, 457, and 403(b) plans when changing jobs—if an employer permits such moves.

Roth 401(k)s and 403(b)s

Employees that participate in 401(k) and 403(b) retirement plans now have the choice of having a partial amount or all their contributions taxed when the contribution is made and then being able to withdraw the earnings tax-free after five years if certain conditions are met (similar to the features of Roth IRAs) or invest their contributions pre-tax. Note that the employer must amend the plan in order to allow Roth contributions.

IRAs

Year	Contribution Limit	Catch-Up Contributions for Age 50+*
2017	$5,500	$1,000

* *Must be age 50 or older before the end of the taxable year and have earned income to contribute. The IRA catch-up limit is not indexed to inflation.*

Supporting Workbook Information

2017 Income Requirements for IRA Deductibility

For Those Covered by an Employer Retirement Plan:

Filing Status	Full Deduction	Partial Deduction	No Deduction
Single	AGI < $62,000	$62,000 - $72,000	AGI $72,000+
Married, Jointly	AGI < $99,000	$99,000 - $119,000	AGI $119,000+
Married, Separate	N/A	$0 - $10,000	AGI $10,000+

For Those Not Covered by an Employer Retirement Plan, But Their Spouse Is:

Filing Status	Full Deduction	Partial Deduction	No Deduction
Married, Jointly	AGI < $186,000	$186,000 - $196,000	AGI $196,000+
Married, Separate	N/A	$0 - $10,000	AGI $10,000+

Roth IRA Conversions

There are several situations where it may not make sense to convert from a Traditional IRA to a Roth IRA including: anticipating being in a lower tax bracket in retirement, needing money within five years of opening the account, using IRA money to pay for the taxes owed from converting, being forced to sell investments and incur substantial capital gain taxes, or if the extra tax liability incurred by converting pushes you into a substantially higher tax bracket or causes you to forfeit any significant deductions, credits, or exemptions.

10% IRA Penalty Tax Waived in Certain Circumstances

The 10% penalty on IRA withdrawals before the account owner reaches 59 ½ will not apply to withdrawals for higher education expenses of the taxpayer, spouse, children, or grandchildren, or withdrawals of up to a lifetime limit of $10,000 to acquire a first-time home for you, a spouse, child, grandchild, or ancestor. You qualify as a “first-time home buyer” as long as you did not own a principal residence for two years.

SIMPLE Plans

SIMPLE IRA plans offered by smaller employers allow the following contribution limits:

Year	Contribution Limit	Catch-Up Contributions Allowed for Age 50+
2017	$12,500	$3,000

Self-Employed Plans

Individuals who are self-employed or have a sideline business can fund a SEP-IRA or Keogh plan. For SEP-IRAs and Keogh plans, contributions can be made up to 25% of compensation or $54,000 in 2017, whichever is less. This maximum amount is indexed for inflation in $1,000 increments. Both the SEP-IRA and Keogh plans can be set up at most financial institutions.

Low Income Credit for Retirement Contributions

A non-refundable tax credit up to 50% on the first $2,000 of contributions set aside in IRAs, 401(k), 403(b), 457, and other employer retirement plans is available for those who qualify based on income level and filing status. The individual must be 18 or over, not a full-time student, and not be claimed as a dependent on another taxpayer's return. The following chart shows applicable credit rates for 2017:

Joint Filers	Head of Household	All Other Filers	Credit Rate
$0 - $37,000	$0 - $27,750	$0 - $18,500	**50%**
$37,001 - $40,000	$27,751 - $30,000	$18,501 - $20,000	**20%**
$40,001 - $62,000	$30,001 - $46,500	$20,001 - $31,000	**10%**
Over $62,000	Over $46,500	Over $31,000	**0%**

Note that this credit is decreased if you have received a distribution from a retirement account in the year the credit is to be claimed, or in either of the two prior years.

Savings Bond Tax Break

For savings bonds purchased in 1990 or later, taxpayers may exclude from their gross income interest earned on bonds used to pay tuition or required fees at accredited colleges and universities. To qualify for the exclusion, there are specific criteria that must be met, including having the bonds issued in the parents' name(s). The U.S. Savings Bonds Investor Information pamphlet, available at most banks, outlines the requirements. If the amount of the savings bond proceeds (interest plus principal) is greater than the qualified higher education expenses paid in a given year, the amount of interest that is excludable is limited to the fraction of qualified expenses paid divided by the amount redeemed. There is a phase-out of this exclusion for 2017 modified AGI amounts over certain levels:

Filing Status	2017 Phase-Out Begins	2017 Exclusion Eliminated
Joint	$117,250	$147,250
Single/Head of Household	$78,150	$93,150

Donating Old Computers and Peripherals

Many waste management companies will accept electronics for recycling at special events or locations. You can also donate computers at Goodwill or Salvation Army donation centers. For more information about recycling or donating electronics, visit the EPA: **http://www.epa.gov/osw/conserve/materials/ecycling/donate.htm**

Gift Tax Annual Exclusion

The gift tax annual exclusion amount is $14,000 per recipient for 2016. Tax-free gifts of up to $14,000 can be made to anyone in 2016.

Estate Taxes

Year	Estate Tax Exemption	Lifetime Gift Tax Exemption	Highest Tax Rate
2014	$5,340,000	$5,340,000	40%
2015	$5,430,000	$5,430,000	40%
2016	$5,450,000	$5,450,000	40%
2017	$5,490,000	$5,490,000	40%

Coverdell Education Savings Account (ESA)

Distributions from an ESA are excludable from income to the extent the amount does not exceed the qualified education expenses of the eligible student during the year. The exclusion is available to part-time students enrolled at an eligible education institution on less than a half-time basis (however, room and board expenses are not considered qualified education expenses in the case of a student enrolled on a less than half-time basis). Expenses paid with tax-exempt education assistance are not considered qualified education expenses, but expenses that are paid with loan proceeds are. If the distribution from the Education Savings Account exceeds the qualified higher education expenses, only a portion of the distribution is excludable. In addition, distributions not used for higher education are subject to a 10 percent addition to tax.

Any balance remaining in an ESA at the time a beneficiary becomes 30 years of age must be distributed and taxed to the beneficiary (and subject to the 10 percent addition to tax) unless the beneficiary has special needs as determined by regulations. However, the balance may be rolled over tax-free to another ESA benefiting another family member under the age of 30 (i.e. another child or grandchild). As long as withdrawals from ESAs are not used for the same expenses for which the American Opportunity and Lifetime credit is claimed, the American Opportunity or Lifetime credit can be claimed in the same year money is withdrawn from an ESA.

Kids Working in Small Business

Children can be hired in a parent's small business. Wages paid can be deducted. No Social Security and Medicare taxes are owed on the wages paid to a child under age 18 employed by a parent's unincorporated business and no federal unemployment taxes are owed on wages paid to such a child who is under age 21. The Tax Court has allowed deductions for wages paid to kids as young as seven. The parent needs to make sure the child performed real work and was paid a reasonable wage (usually no more than $10 per hour) for it. Kids can still be claimed as dependents as well. If a child sets up his/her own business and nets less than $400, and total income for the year is less than $1,050 in 2017, no federal income taxes are owed. Otherwise there are tax liabilities, including Social Security, and estimated taxes may be required.

Roth IRAs for Kids

Any child with earned income from a job can put a matching amount up to $5,500 in a Roth IRA for 2017. Alternatively, a parent or grandparent can fund a Roth IRA for 2017 up to the child's earned income amount or $5,500—whichever is less.

Taxation of Children's Income

Whether the parent(s) or the child gets taxed depends on the type of income (earned or unearned) and the child's age as shown in the following chart.

<table>
<tr><td rowspan="3">Earned Income (Wages)</td><td colspan="2">Taxed at the child's own rate. However, children can earn up to $6,350 in 2017 and pay zero tax. Income over that amount is taxed at the child's own low tax rate, starting at 10%.</td></tr>
<tr><td colspan="2">Tax-free earnings could be increased to $11,850 in 2017 if the child makes the maximum deductible contribution allowed by law to an IRA. Contributions can be made up until April 15th of the next year.</td></tr>
<tr><td colspan="2">If a child owed no income tax last year, expects to owe no tax this year, and has no taxable investment income, it is not necessary to withhold income tax from a child's job. The child can claim exempt status on the W-4 form. Drawback: Even if the child earns investment income of just $1, withholding is required. The only way to get any money owed back is to file a tax return.</td></tr>
<tr><td rowspan="6">Unearned Income (Investments)</td><td colspan="2">18 and over, not a full-time student: Taxed at child's rate</td></tr>
<tr><td colspan="2">Under 18 or full-time student, age 19-23: See chart below</td></tr>
<tr><td>2017</td><td>Tax Consequence</td></tr>
<tr><td>$0-1,050</td><td>Exempt</td></tr>
<tr><td>$1,051-2,100</td><td>Child's Tax Rate (i.e. 10%)</td></tr>
<tr><td>$2,101+</td><td>Parent's Tax Rate</td></tr>
</table>

Taxpayer Rights

The IRS can no longer seize a personal residence to obtain back taxes when the amount a taxpayer owes, including penalties and interest, is $5,000 or less. Legislation requires the IRS to exhaust all other administrative remedies and alternative payment options before it seizes a personal residence, no matter how large the back tax owed. This law also applies to other non-rental real property owned as well. Taxpayer's rights include the right to appeal IRS collection decisions and the right to a hearing before property is seized. The burden of proof is shifted from taxpayers to the IRS to prove money is owed. There are limits when the IRS can call on a person to collect back taxes. If the taxpayer can show that an IRS employee disregarded the tax code or the agency's own regulations in collecting back tax, the taxpayer can sue the agent for as much as $100,000 in damages. Taxpayer rights when dealing with the IRS are summarized on their website at **http://www.taxpayeradvocate.irs.gov/About-TAS/Taxpayer-Rights.**

Innocent Spouse Relief

The IRS Restructuring Act creates separate liability for ‘innocent’ spouses. Spouses are allowed to separate their liability within two years of being notified of a deficiency using IRS Form 8857. A person that is separated, divorced, or living apart from a spouse stands a better chance of winning relief. Moreover, those eligible for relief must have filed a joint return. If relief is granted, the individual will only be liable for the portion of the tax underpayment attributable to his or her own income. The individual must prove, among other things, that their spouse did all the tax cheating, and that the individual filing the claim did not know about it and had no reason to know about it. The individual must also attach a statement to Form 8857 that explains the amount and nature of the understatement of tax, why relief should be granted, and why it would be unfair to hold the spouse liable for the tax deficiency. The U.S. Tax Court has ruled that when the individual petitions the IRS for relief, the spouse (or ex-spouse) has a right to participate in all proceedings and challenge the findings. However, the IRS has announced new safeguards for taxpayers that have been victims of domestic violence or those who fear that filing an innocent spouse claim will lead to retaliation.Consult with an accountant or attorney before filing a claim.

Taxpayer Advocate Service

When a non-emergency problem arises with the IRS (i.e. missing refund, misapplied payments, etc.) the taxpayer must first try to resolve the issue through normal means using letters and phone calls. It is important to keep copies of all correspondence and records of conversation with the IRS. If a problem is not resolved within two attempts or by a promised deadline, the taxpayer can seek help through the Taxpayer Advocate Service (TAS). TAS can only help with administrative issues. They will not get involved in legal challenges. TAS can help if a taxpayer is experiencing problems getting a stalled refund, erroneous penalties, muddled records, wrongheaded notices, and violations of his or her rights. The Service can also block an IRS seizure of a taxpayer’s pay or property that threatens the taxpayer with a severe hardship. The first step is to file IRS Form 911, Application for Taxpayer Assistance Order. Call the IRS toll-free at (877) 777-4778 and ask for a local Taxpayer Advocate for your geographic area. You can learn more at **http://www.taxpayeradvocate.irs.gov/.**

Opportunities for Homeowners

These credits were calculated using Form 5695.

- Taxpayers may be able to take a credit of 30% of the cost to install energy-saving improvements, including the cost of labor from installation, piping, and wiring.
- Qualified solar water heating equipment
- Qualified small wind energy equipment
- Qualified geothermal heat pumps
- Qualified solar electricity generation equipment
- Qualified fuel cell equipment (up to $1,000 per kilowatt hour)

The above-mentioned credits have restrictions and limitations. See IRS Form 5695 for more information.

Traditional IRA vs. Roth IRA

	Traditional IRA	Roth IRA
What are the Tax Benefits?	Any deductible contributions and all earnings are taxed upon withdrawal. Withdrawals can generally begin without penalty at age 59 ½.	Contributions are non-deductible and can be withdrawn tax-free and penalty-free at any time. Qualified earnings distributions are tax-free.
Are There Income Limits?	Depends. For retirement plan participants, AGI must be less than $62,000 in 2017 for single filers and $99,000 in 2017 for married filing joint filers for a fully deductible IRA. There are no income limits to qualify for a non-deductible Traditional IRA.	Yes, for single filers, AGI must be less than $118,000 and for married filing joint filers, AGI must be less than $186,000 to qualify for a full contribution.
Contributions After 70 ½?	No.	Yes, as long as you have earned income.
Withdrawals for First-Time Home Purchase (Up to $10,000 Each or $20,000 for Married Couples)?	Yes, penalty-free, but taxes must be paid on earnings and previously untaxed contributions.	Contributions can be withdrawn tax-free and penalty-free at any time. Earnings can be withdrawn penalty-free and tax-free if the account is at least five years old and you're 59 ½ or older.
Withdrawals for Higher Education Expenses?	Yes, in any amount, without penalty but will owe applicable income taxes.	Yes, contributions (but not earnings) can be withdrawn tax-free and penalty-free at any time.
Mandatory Distributions?	At 70½ required to begin taking distributions.	No mandatory distributions.
Subject to Estate Taxes?	Yes.	
Do Heirs Pay Taxes?	Yes, if someone other than the spouse inherits accounts, they must begin taking minimum distributions that are taxed.	No, distributions are income-tax-free to Roth IRA beneficiaries. However, if someone other than a spouse inherits, they must begin taking minimum distributions even though these distributions will not be taxed.

Tax Preparation Guide

- **Keep copies of supporting documentation for six years** (bills, bank statements, canceled checks, and other records). Although the period of time when the IRS can no longer question a return is usually three years from the return's original due date—including extensions (the statute of limitations), it is extended to six years if more than 25% of gross income is omitted from a return—even if the omission is unintentional. If a return is fraudulent, there is no statute of limitations.
- **Some records need to be stored longer**, such as how much was paid for stocks, bonds, real estate, and other property still owned. **Tax returns themselves should never by thrown away** as they represent evidence that a return was in fact filed.
- **If a tax refund is more than a few hundred dollars, then there is probably too much tax being withheld** and the taxpayer may wish to adjust the withholding allowances on a W-4 Form. Remember, claim as many withholding allowances as the taxpayer qualifies for, so long as the amount of tax withheld from his or her salary accurately balances the final tax bill for the year.
- **To make better financial decisions for the future, map out next year's taxes** on a sample form using this year's figures as a base.
- **Keep up-to-date on the tax code**. A good way is for a taxpayer to complete his or her own tax returns—or at least enough to become familiar with items that can reduce the taxable base of income such as claiming any applicable credits, etc.
- **When moving, file IRS Form 8822** using certified or registered mail. Reason: An IRS notice is valid even if it is never received.
- **Need to file an amended return? Use Form 1040X** whether an original return was filed on paper or electronically. If it is necessary to file an amended return to claim an additional refund, wait until the refund is received from the original filing before sending in the amended return. Do not wait too long: An amended return must be filed within three years of the due date of the original return, with extensions.

2016 Tax Rates

Tax Rate	Single	Married, Filing Jointly	Married, Filing Separately	Head of Household	Long-Term Capital Gains
10%	$0-9,275	$0-18,550	$0-9,275	$0-13,250	0%
15%	$9,276-37,650	$18,551-75,300	$9,276-37,650	$13,251-50,400	
25%	$37,651-91,150	$75,301-151,900	$37,651-75,950	$50,401-130,150	15%
28%	$91,151-190,150	$151,901-231,450	$75,951-115,725	$130,151-210,800	
33%	$190,151-413,350	$231,451-413,350	$115,726-206,675	$210,801-413,350	
35%	$413,351-415,050	$413,351-466,950	$206,676-233,475	$413,351-441,000	
39.6%	$415,051+	$466,951+	$233,476+	$441,001+	20%

Based on Taxable Income *Source: RIA Federal Tax Handbook, 2016*

American Taxpayer Relief Act

The *American Taxpayer Relief Act of 2012*, passed January 2, 2013, made multiple changes to the tax code for 2013 and beyond. This workbook will discuss many of those changes in great detail. Here is a quick summary of some of the highlights of this law:

- **Added a new ordinary income tax bracket** on income above $418,400 per individual or $470,700 for 2016 per family. Income above that level will be taxed at 39.6%, up from the previous top rate of 35%.
- Above those income thresholds, capital gains and dividends tax rates are now 20%, up from 15%.
- Personal exemptions and itemized deductions are gradually phased out for income above $261,500 for individuals and $313,800 for families.
- **The itemized deduction for state and local sales taxes was extended**, allowing citizens who live in states without income taxes to still claim an itemized deduction for state and local sales taxes.
- The itemized deduction for Mortgage Insurance was extended through 2016.
- The Alternative Minimum Tax (AMT) exemption was adjusted permanently, including an annual increase for inflation.
- **The Mortgage Debt Relief Act of 2007 was extended**. This extension meant that taxpayers who were underwater on their home loans will avoid paying taxes on any mortgage debt forgiven through January 2017.
- Raised the estate tax rate to 40% for estates of more than $5.25 million (adjusted for inflation), up from the previous level of 35%. The estate tax exemption for 2017 is $5.49 million.

Some additional major changes went into effect in 2013, although they are not specifically a part of the *American Taxpayer Relief Act of 2012*. They were:

- **Social Security Tax Increase**: The social security tax, increased 2% to 6.2%, up from the 4.2% taxpayers were used to.
- **Medicare Payroll Tax Increase**: The Medicare tax increased .9 %, from 1.45% to 2.35% on wages above $200,000 for single taxpayers and $250,000 for married taxpayers filing jointly.
- **Unearned Income Medicare Tax**: Some taxpayers (Individuals with AGI over $200,000 and married couples filing jointly with AGI over $250,000) owe a 3.8% Medicare tax on some or all of their unearned income—income generated from investments such as capital gains, dividends, and taxable interest.

Changes to Medicare Tax

Additional Medicare Payroll Tax on High Income Earners

The Medicare payroll tax has historically been 2.9%. This tax only applies to earned income—wages you are paid by an employer. You are responsible for 1.45% of the tax, deducted automatically from your paycheck. The employer kicks in the other half.

High-wage earners pay an additional 0.9% on earned income above a certain threshold as follows:

- $200,000 for single filers
- $250,000 for married couples filing jointly

Example 1: Cesar is an individual filer whose AGI for 2017 is $225,000. Cesar will pay a 1.45% Medicare tax on the first $200,000, then 2.35% (1.45% plus the excess 0.9%) on the next $25,000. Cesar's employer is required to withhold the extra 0.9% once his wages pass the $200,000 threshold for individuals.

Example 2: Joe and Marianne are married and file a joint return. They each earn $150,000. Their employers will withhold 1.45% for Medicare tax, because neither of them exceeds the $200,000 individual threshold. When they file their joint return however, their combined earned income of $300,000 is $50,000 above the married filing jointly threshold. This means Joe and Marianne underpaid their Medicare tax by $450 (0.9% of $50,000) and will owe the additional amount when they file their taxes.

Unearned Income Medicare Tax

In the past, Medicare taxes were only owed on earned income—income from wages paid by your employer. Some taxpayers now owe 3.8% Medicare tax on some or all of their unearned income—income generated from investments such as capital gains, dividends, and taxable interest.

Individuals with AGI over $200,000 and married couples filing jointly with AGI over $250,000 are subject to an additional 3.8% Medicare tax on the lesser of:

1. Net investment income (e.g. interest, dividends, capital gains, royalties, etc.) ***OR***
2. The excess of AGI over $200,000 ($250,000 if married filing jointly)

Defining Investment Income

Unearned net investment income includes the following:

- Dividends
- Taxable interest
- Net capital gains from the sale of investments (including homes and rentals)
- Net rental income
- Royalties
- Income from investments you don't actively participate in (such as a partnership)
- The taxable portion of non-qualified annuity payments

Net investment income does not include:

- Tax-exempt interest from municipal bonds or funds
- Withdrawals from a retirement plan such as a Traditional IRA, Roth IRA, or 401(k)
- Payouts from defined-benefit pension plans or annuities part of retirement plans

Medicare Surcharge Examples:

Example 1: *Adam is a single filer:*

Wages	$180,000
Net Investment Income	$60,000
AGI	$240,000
Threshold	$200,000 ($40,000 Over)
Medicare Surtax	3.8% × $40,000 = **$1,520**

Adam owes the 3.8% Medicare tax on the $40,000 over the threshold, because it is less than his net investment income of $60,000. Adams' Medicare surtax will be $1,520 (3.8% of $40,000). He doesn't owe the 0.9% Medicare surtax on wages—his are below the $200,000 earned income threshold for individuals.

Example 2: *Joan is a single filer:*

Wages	$220,000
Net Investment Income	$10,000
AGI	$230,000
Threshold	$200,000 ($30,000 Over)
Medicare Surtax	3.8% × $10,000 = **$380**

Joan owes the 3.8% Medicare tax on her $10,000 of net investment income because it's less than the amount she is over the threshold ($30,000). Joan also owes an additional 0.9% on the $20,000 she is over the $200,000 earned income threshold for individuals. Her employer will withhold this additional 0.9%.

Example 3: *Paul and Ann are a married couple that file jointly:*

Wages	$330,000
Net Investment Income	$42,000
AGI	$372,000
Threshold	$250,000 ($122,000 Over)
Medicare Surtax	3.8% × $42,000 = **$1,596**

Paul and Ann owe the 3.8% Medicare tax on their $42,000 of net investment income because it's less than the amount they are over the threshold ($122,000). Note that they also owe an additional 0.9% on the $80,000 they are over the $250,000 earned income threshold for married couples.

Phaseout of Itemized Deductions

The *American Taxpayer Relief Act of 2012* reinstated itemized deductions phase-outs that have not been a part of the tax code since 2010. Here is a summary of the itemized deductions phase out rules for 2016 and 2017:

- Itemized deductions are reduced by 3% of the amount a taxpayer's Adjusted Gross Income (AGI) exceeds a cutoff, up to a maximum reduction of 80%.

2017 Filing Status	Threshold AGI
Single	$261,500
Married, Joint	$313,800
2016 Filing Status	**Threshold AGI**
Single	$259,400
Married, Joint	$311,300

EXAMPLE: *Joni is single with a 2017 AGI of $293,150 and itemized deductions of $55,000:*

AGI = $293,150	Cutoff = $261,500
AGI Exceeds Cutoff By:	$293,150 - $261,500 = **$31,650**
Deduction Limit:	$31,650 × 3% = **$949.50**
Maximum Itemized Deductions:	$55,000 - $949.50 = **$54,050.50**

Phaseout of Personal Exemptions

The *American Taxpayer Relief Act of 2012* also reinstated the Personal Exemption Phaseout (PEP) that had not been a part of the tax code since 2010. Here is a summary of the PEP rules for 2016 and 2017:

- PEP reduces personal exemptions for both taxpayers and their dependents by 2 percent for each $2,500 (or part of $2,500) that AGI exceeds the threshold depending upon filing status.

2017 Filing Status	Threshold AGI
Single	$261,500
Married, Joint	$313,800
2016 Filing Status	**Threshold AGI**
Single	$259,400
Married, Joint	$311,300

EXAMPLE: *Joni is single with no dependents and a AGI of $293,150.*

AGI = $293,150	Cutoff = $261,500
AGI Exceeds Cutoff By:	$293,150 - $261,500 = **$31,650**
Divide Excess by $2,500:	$31,650 ÷ $2,500 = **12.6** (round to 13)
Personal Exemption Reduction:	(2% × 13 = 26%) × $4,050 = **$1,053**
Maximum Personal Exemption:	$4,050 - $1,053 = **$2,997**

Form 1040 U.S. Individual Tax Return - Page 1

Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return 2016 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2016, or other tax year beginning , 2016, ending , 20 See separate instructions.

Your first name and initial	Last name	**Your social security number**
If a joint return, spouse's first name and initial	Last name	**Spouse's social security number**
Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).		**Presidential Election Campaign**
Foreign country name	Foreign province/state/county / Foreign postal code	Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ **You** ☐ **Spouse**

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child

Exemptions

6a ☐ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a . . . . .
b ☐ **Spouse** . . . .

c **Dependents:** (1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
			☐
			☐
			☐
			☐

If more than four dependents, see instructions and check here ▶ ☐

d Total number of exemptions claimed . . . .

Boxes checked on 6a and 6b
No. of children on 6c who:
• lived with you
• did not live with you due to divorce or separation (see instructions)
Dependents on 6c not entered above
Add numbers on lines above ▶

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

7	Wages, salaries, tips, etc. Attach Form(s) W-2		7
8a	**Taxable** interest. Attach Schedule B if required		8a
b	**Tax-exempt** interest. **Do not** include on line 8a	8b	
9a	Ordinary dividends. Attach Schedule B if required		9a
b	Qualified dividends	9b	
10	Taxable refunds, credits, or offsets of state and local income taxes		10
11	Alimony received		11
12	Business income or (loss). Attach Schedule C or C-EZ		12
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐		13
14	Other gains or (losses). Attach Form 4797		14
15a	IRA distributions	15a	**b** Taxable amount 15b
16a	Pensions and annuities	16a	**b** Taxable amount 16b
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17
18	Farm income or (loss). Attach Schedule F		18
19	Unemployment compensation		19
20a	Social security benefits	20a	**b** Taxable amount 20b
21	Other income. List type and amount		21
22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22

Adjusted Gross Income

23	Educator expenses	23	
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	
25	Health savings account deduction. Attach Form 8889	25	
26	Moving expenses. Attach Form 3903	26	
27	Deductible part of self-employment tax. Attach Schedule SE	27	
28	Self-employed SEP, SIMPLE, and qualified plans	28	
29	Self-employed health insurance deduction	29	
30	Penalty on early withdrawal of savings	30	
31a	Alimony paid **b** Recipient's SSN ▶	31a	
32	IRA deduction	32	
33	Student loan interest deduction	33	
34	Tuition and fees. Attach Form 8917	34	
35	Domestic production activities deduction. Attach Form 8903	35	
36	Add lines 23 through 35		36
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶		37

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2016)

Form 1040 U.S. Individual Tax Return - Page 2

Form 1040 (2016) Page **2**

Tax and Credits	38	Amount from line 37 (adjusted gross income)	38	
	39a	Check if: ☐ **You** were born before January 2, 1952, ☐ Blind. ☐ **Spouse** was born before January 2, 1952, ☐ Blind. } **Total boxes checked** ▶ 39a ☐		
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐		
Standard Deduction for— • People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, $6,300; Married filing jointly or Qualifying widow(er), $12,600; Head of household, $9,300	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)	40	
	41	Subtract line 40 from line 38	41	
	42	**Exemptions.** If line 38 is $155,650 or less, multiply $4,050 by the number on line 6d. Otherwise, see instructions	42	
	43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	
	44	**Tax** (see instructions). Check if any from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972 **c** ☐	44	
	45	**Alternative minimum tax** (see instructions). Attach Form 6251	45	
	46	Excess advance premium tax credit repayment. Attach Form 8962	46	
	47	Add lines 44, 45, and 46 ▶	47	
	48	Foreign tax credit. Attach Form 1116 if required — 48		
	49	Credit for child and dependent care expenses. Attach Form 2441 — 49		
	50	Education credits from Form 8863, line 19 — 50		
	51	Retirement savings contributions credit. Attach Form 8880 — 51		
	52	Child tax credit. Attach Schedule 8812, if required — 52		
	53	Residential energy credits. Attach Form 5695 — 53		
	54	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐ — 54		
	55	Add lines 48 through 54. These are your **total credits**	55	
	56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶	56	
Other Taxes	57	Self-employment tax. Attach Schedule SE	57	
	58	Unreported social security and Medicare tax from Form: **a** ☐ 4137 **b** ☐ 8919	58	
	59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59	
	60a	Household employment taxes from Schedule H	60a	
	b	First-time homebuyer credit repayment. Attach Form 5405 if required	60b	
	61	Health care: individual responsibility (see instructions) Full-year coverage ☐	61	
	62	Taxes from: **a** ☐ Form 8959 **b** ☐ Form 8960 **c** ☐ Instructions; enter code(s)	62	
	63	Add lines 56 through 62. This is your **total tax** ▶	63	
Payments	64	Federal income tax withheld from Forms W-2 and 1099 — 64		
If you have a qualifying child, attach Schedule EIC.	65	2016 estimated tax payments and amount applied from 2015 return — 65		
	66a	**Earned income credit (EIC)** — 66a		
	b	Nontaxable combat pay election — 66b		
	67	Additional child tax credit. Attach Schedule 8812 — 67		
	68	American opportunity credit from Form 8863, line 8 — 68		
	69	Net premium tax credit. Attach Form 8962 — 69		
	70	Amount paid with request for extension to file — 70		
	71	Excess social security and tier 1 RRTA tax withheld — 71		
	72	Credit for federal tax on fuels. Attach Form 4136 — 72		
	73	Credits from Form: **a** ☐ 2439 **b** ☐ Reserved **c** ☐ 8885 **d** ☐ — 73		
	74	Add lines 64, 65, 66a, and 67 through 73. These are your **total payments** ▶	74	
Refund	75	If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you **overpaid**	75	
	76a	Amount of line 75 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐	76a	
Direct deposit? See instructions.	▶ b	Routing number ▶ c Type: ☐ Checking ☐ Savings		
	▶ d	Account number		
	77	Amount of line 75 you want **applied to your 2017 estimated tax** ▶ 77		
Amount You Owe	78	**Amount you owe.** Subtract line 74 from line 63. For details on how to pay, see instructions ▶	78	
	79	Estimated tax penalty (see instructions) — 79		

Third Party Designee — Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ **Yes.** Complete below. ☐ **No**

Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶

Sign Here — Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records.

Your signature	Date	Your occupation	Daytime phone number
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Firm's name ▶			Firm's EIN ▶	
Firm's address ▶			Phone no.	

www.irs.gov/form1040 Form **1040** (2016)

1040 Schedule A

SCHEDULE A (Form 1040)
Department of the Treasury
Internal Revenue Service (99)

Itemized Deductions

► Information about Schedule A and its separate instructions is at *www.irs.gov/schedulea*.
► Attach to Form 1040.

OMB No. 1545-0074
2016
Attachment Sequence No. 07

Name(s) shown on Form 1040 | **Your social security number**

Medical and Dental Expenses		**Caution:** Do not include expenses reimbursed or paid by others.		
	1	Medical and dental expenses (see instructions)	1	
	2	Enter amount from Form 1040, line 38 [2]		
	3	Multiply line 2 by 10% (0.10). But if either you or your spouse was born before January 2, 1952, multiply line 2 by 7.5% (0.075) instead	3	
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-		4
Taxes You Paid	5	State and local **(check only one box):**		
		a ☐ Income taxes, **or** / b ☐ General sales taxes	5	
	6	Real estate taxes (see instructions)	6	
	7	Personal property taxes	7	
	8	Other taxes. List type and amount ►	8	
	9	Add lines 5 through 8		9
Interest You Paid	10	Home mortgage interest and points reported to you on Form 1098	10	
Note: Your mortgage interest deduction may be limited (see instructions).	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ►	11	
	12	Points not reported to you on Form 1098. See instructions for special rules	12	
	13	Mortgage insurance premiums (see instructions)	13	
	14	Investment interest. Attach Form 4952 if required. (See instructions.)	14	
	15	Add lines 10 through 14		15
Gifts to Charity	16	Gifts by cash or check. If you made any gift of $250 or more, see instructions	16	
If you made a gift and got a benefit for it, see instructions.	17	Other than by cash or check. If any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500	17	
	18	Carryover from prior year	18	
	19	Add lines 16 through 18		19
Casualty and Theft Losses	20	Casualty or theft loss(es). Attach Form 4684. (See instructions.)		20
Job Expenses and Certain Miscellaneous Deductions	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ►	21	
	22	Tax preparation fees	22	
	23	Other expenses—investment, safe deposit box, etc. List type and amount ►	23	
	24	Add lines 21 through 23	24	
	25	Enter amount from Form 1040, line 38 [25]		
	26	Multiply line 25 by 2% (0.02)	26	
	27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-		27
Other Miscellaneous Deductions	28	Other—from list in instructions. List type and amount ►		28
Total Itemized Deductions	29	Is Form 1040, line 38, over $155,650?		
		☐ **No.** Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40.		29
		☐ **Yes.** Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.		
	30	If you elect to itemize deductions even though they are less than your standard deduction, check here ► ☐		

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 17145C **Schedule A (Form 1040) 2016**

1040 Schedule B

SCHEDULE B
(Form 1040A or 1040)

Department of the Treasury
Internal Revenue Service (99)

Interest and Ordinary Dividends

► Attach to Form 1040A or 1040.
► Information about Schedule B and its instructions is at *www.irs.gov/scheduleb*.

OMB No. 1545-0074
2016
Attachment Sequence No. 08

Name(s) shown on return | Your social security number

Part I Interest

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 8a.)

Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

			Amount
1	List name of payer. If any interest is from a seller-financed mortgage and the buyer used the property as a personal residence, see instructions on back and list this interest first. Also, show that buyer's social security number and address ►	1	
2	Add the amounts on line 1	2	
3	Excludable interest on series EE and I U.S. savings bonds issued after 1989. Attach Form 8815	3	
4	Subtract line 3 from line 2. Enter the result here and on Form 1040A, or Form 1040, line 8a ►	4	

Note: If line 4 is over $1,500, you must complete Part III.

Part II Ordinary Dividends

(See instructions on back and the instructions for Form 1040A, or Form 1040, line 9a.)

Note: If you received a Form 1099-DIV or substitute statement from a brokerage firm, list the firm's name as the payer and enter the ordinary dividends shown on that form.

			Amount
5	List name of payer ►	5	
6	Add the amounts on line 5. Enter the total here and on Form 1040A, or Form 1040, line 9a ►	6	

Note: If line 6 is over $1,500, you must complete Part III.

Part III Foreign Accounts and Trusts

(See instructions on back.)

You must complete this part if you **(a)** had over $1,500 of taxable interest or ordinary dividends; **(b)** had a foreign account; or **(c)** received a distribution from, or were a grantor of, or a transferor to, a foreign trust.

		Yes	No
7a	At any time during 2016, did you have a financial interest in or signature authority over a financial account (such as a bank account, securities account, or brokerage account) located in a foreign country? See instructions		
	If "Yes," are you required to file FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR), to report that financial interest or signature authority? See FinCEN Form 114 and its instructions for filing requirements and exceptions to those requirements		
b	If you are required to file FinCEN Form 114, enter the name of the foreign country where the financial account is located ►		
8	During 2016, did you receive a distribution from, or were you the grantor of, or transferor to, a foreign trust? If "Yes," you may have to file Form 3520. See instructions on back		

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 17146N **Schedule B (Form 1040A or 1040) 2016**

1040 Schedule D

SCHEDULE D (Form 1040)

Department of the Treasury Internal Revenue Service (99)

Capital Gains and Losses

► Attach to Form 1040 or Form 1040NR.
► Information about Schedule D and its separate instructions is at *www.irs.gov/scheduled*.
► Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.

OMB No. 1545-0074
2016
Attachment Sequence No. 12

Name(s) shown on return | **Your social security number**

Part I **Short-Term Capital Gains and Losses—Assets Held One Year or Less**

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
1a Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b .				
1b Totals for all transactions reported on Form(s) 8949 with **Box A** checked				
2 Totals for all transactions reported on Form(s) 8949 with **Box B** checked				
3 Totals for all transactions reported on Form(s) 8949 with **Box C** checked				

4 Short-term gain from Form 6252 and short-term gain or (loss) from Forms 4684, 6781, and 8824 .	4	
5 Net short-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	5	
6 Short-term capital loss carryover. Enter the amount, if any, from line 8 of your **Capital Loss Carryover Worksheet** in the instructions	6	( )
7 **Net short-term capital gain or (loss).** Combine lines 1a through 6 in column (h). If you have any long-term capital gains or losses, go to Part II below. Otherwise, go to Part III on the back	7	

Part II **Long-Term Capital Gains and Losses—Assets Held More Than One Year**

See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b .				
8b Totals for all transactions reported on Form(s) 8949 with **Box D** checked				
9 Totals for all transactions reported on Form(s) 8949 with **Box E** checked				
10 Totals for all transactions reported on Form(s) 8949 with **Box F** checked.				

11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824	11	
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1	12	
13 Capital gain distributions. See the instructions	13	
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your **Capital Loss Carryover Worksheet** in the instructions	14	( )
15 **Net long-term capital gain or (loss).** Combine lines 8a through 14 in column (h). Then go to Part III on the back	15	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11338H **Schedule D (Form 1040) 2016**

16 Combine lines 7 and 15 and enter the result **16**

- If line 16 is a **gain,** enter the amount from line 16 on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 17 below.
- If line 16 is a **loss,** skip lines 17 through 20 below. Then go to line 21. Also be sure to complete line 22.
- If line 16 is **zero,** skip lines 17 through 21 below and enter -0- on Form 1040, line 13, or Form 1040NR, line 14. Then go to line 22.

17 Are lines 15 and 16 **both** gains?

☐ **Yes.** Go to line 18.

☐ **No.** Skip lines 18 through 21, and go to line 22.

18 Enter the amount, if any, from line 7 of the **28% Rate Gain Worksheet** in the instructions . . ▶ **18**

19 Enter the amount, if any, from line 18 of the **Unrecaptured Section 1250 Gain Worksheet** in the instructions . . . . ▶ **19**

20 Are lines 18 and 19 **both** zero or blank?

☐ **Yes.** Complete the **Qualified Dividends and Capital Gain Tax Worksheet** in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42). **Don't** complete lines 21 and 22 below.

☐ **No.** Complete the **Schedule D Tax Worksheet** in the instructions. **Don't** complete lines 21 and 22 below.

21 If line 16 is a loss, enter here and on Form 1040, line 13, or Form 1040NR, line 14, the **smaller** of:

- The loss on line 16 or
- ($3,000), or if married filing separately, ($1,500)

} . . . . **21** (   )

Note: When figuring which amount is smaller, treat both amounts as positive numbers.

22 Do you have qualified dividends on Form 1040, line 9b, or Form 1040NR, line 10b?

☐ **Yes.** Complete the **Qualified Dividends and Capital Gain Tax Worksheet** in the instructions for Form 1040, line 44 (or in the instructions for Form 1040NR, line 42).

☐ **No.** Complete the rest of Form 1040 or Form 1040NR.

Schedule D (Form 1040) 2016

IRS Form 6251

Form **6251**

Department of the Treasury
Internal Revenue Service (99)

Alternative Minimum Tax—Individuals

► Information about Form 6251 and its separate instructions is at *www.irs.gov/form6251.*
► Attach to Form 1040 or Form 1040NR.

OMB No. 1545-0074
2016
Attachment Sequence No. 32

Name(s) shown on Form 1040 or Form 1040NR | **Your social security number**

Part I Alternative Minimum Taxable Income (See instructions for how to complete each line.)

1	If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41, and go to line 2. Otherwise, enter the amount from Form 1040, line 38, and go to line 7. (If less than zero, enter as a negative amount.)	1	
2	Medical and dental. If you or your spouse was 65 or older, enter the **smaller** of Schedule A (Form 1040), line 4, **or** 2.5% (0.025) of Form 1040, line 38. If zero or less, enter -0-	2	
3	Taxes from Schedule A (Form 1040), line 9	3	
4	Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet in the instructions for this line	4	
5	Miscellaneous deductions from Schedule A (Form 1040), line 27	5	
6	If Form 1040, line 38, is $155,650 or less, enter -0-. Otherwise, see instructions	6	( )
7	Tax refund from Form 1040, line 10 or line 21	7	( )
8	Investment interest expense (difference between regular tax and AMT)	8	
9	Depletion (difference between regular tax and AMT)	9	
10	Net operating loss deduction from Form 1040, line 21. Enter as a positive amount	10	
11	Alternative tax net operating loss deduction	11	( )
12	Interest from specified private activity bonds exempt from the regular tax	12	
13	Qualified small business stock, see instructions	13	
14	Exercise of incentive stock options (excess of AMT income over regular tax income)	14	
15	Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code A)	15	
16	Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)	16	
17	Disposition of property (difference between AMT and regular tax gain or loss)	17	
18	Depreciation on assets placed in service after 1986 (difference between regular tax and AMT)	18	
19	Passive activities (difference between AMT and regular tax income or loss)	19	
20	Loss limitations (difference between AMT and regular tax income or loss)	20	
21	Circulation costs (difference between regular tax and AMT)	21	
22	Long-term contracts (difference between AMT and regular tax income)	22	
23	Mining costs (difference between regular tax and AMT)	23	
24	Research and experimental costs (difference between regular tax and AMT)	24	
25	Income from certain installment sales before January 1, 1987	25	( )
26	Intangible drilling costs preference	26	
27	Other adjustments, including income-based related adjustments	27	
28	**Alternative minimum taxable income.** Combine lines 1 through 27. (If married filing separately and line 28 is more than $247,450, see instructions.)	28	

Part II Alternative Minimum Tax (AMT)

29 Exemption. (If you were under age 24 at the end of 2016, see instructions.)

IF your filing status is . . .	**AND line 28 is not over . . .**	**THEN enter on line 29 . . .**
Single or head of household	$119,700	$53,900
Married filing jointly or qualifying widow(er)	159,700	83,800
Married filing separately	79,850	41,900

If line 28 is **over** the amount shown above for your filing status, see instructions. — 29

30	Subtract line 29 from line 28. If more than zero, go to line 31. If zero or less, enter -0- here and on lines 31, 33, and 35, and go to line 34	30	
31	• If you are filing Form 2555 or 2555-EZ, see instructions for the amount to enter. • If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9b; **or** you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as refigured for the AMT, if necessary), complete Part III on the back and enter the amount from line 64 here. • **All others:** If line 30 is $186,300 or less ($93,150 or less if married filing separately), multiply line 30 by 26% (0.26). Otherwise, multiply line 30 by 28% (0.28) and subtract $3,726 ($1,863 if married filing separately) from the result.	31	
32	Alternative minimum tax foreign tax credit (see instructions)	32	
33	Tentative minimum tax. Subtract line 32 from line 31	33	
34	Add Form 1040, line 44 (minus any tax from Form 4972), and Form 1040, line 46. Subtract from the result any foreign tax credit from Form 1040, line 48. If you used Schedule J to figure your tax on Form 1040, line 44, refigure that tax without using Schedule J before completing this line (see instructions)	34	
35	**AMT.** Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45	35	

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Part III Tax Computation Using Maximum Capital Gains Rates

Complete Part III only if you are required to do so by line 31 or by the Foreign Earned Income Tax Worksheet in the instructions.

36	Enter the amount from Form 6251, line 30. If you are filing Form 2555 or 2555-EZ, enter the amount from line 3 of the worksheet in the instructions for line 31	36	
37	Enter the amount from line 6 of the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44, or the amount from line 13 of the Schedule D Tax Worksheet in the instructions for Schedule D (Form 1040), whichever applies (as refigured for the AMT, if necessary) (see instructions). If you are filing Form 2555 or 2555-EZ, see instructions for the amount to enter	37	
38	Enter the amount from Schedule D (Form 1040), line 19 (as refigured for the AMT, if necessary) (see instructions). If you are filing Form 2555 or 2555-EZ, see instructions for the amount to enter	38	
39	If you did not complete a Schedule D Tax Worksheet for the regular tax or the AMT, enter the amount from line 37. Otherwise, add lines 37 and 38, and enter the **smaller** of that result or the amount from line 10 of the Schedule D Tax Worksheet (as refigured for the AMT, if necessary). If you are filing Form 2555 or 2555-EZ, see instructions for the amount to enter	39	
40	Enter the **smaller** of line 36 or line 39	40	
41	Subtract line 40 from line 36	41	
42	If line 41 is $186,300 or less ($93,150 or less if married filing separately), multiply line 41 by 26% (0.26). Otherwise, multiply line 41 by 28% (0.28) and subtract $3,726 ($1,863 if married filing separately) from the result ▶	42	
43	Enter: • $75,300 if married filing jointly or qualifying widow(er), • $37,650 if single or married filing separately, or • $50,400 if head of household.	43	
44	Enter the amount from line 7 of the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44, or the amount from line 14 of the Schedule D Tax Worksheet in the instructions for Schedule D (Form 1040), whichever applies (as figured for the regular tax). If you did not complete either worksheet for the regular tax, enter the amount from Form 1040, line 43; if zero or less, enter -0-. If you are filing Form 2555 or 2555-EZ, see instructions for the amount to enter	44	
45	Subtract line 44 from line 43. If zero or less, enter -0-	45	
46	Enter the **smaller** of line 36 or line 37	46	
47	Enter the **smaller** of line 45 or line 46. This amount is taxed at 0%	47	
48	Subtract line 47 from line 46	48	
49	Enter: • $415,050 if single • $233,475 if married filing separately • $466,950 if married filing jointly or qualifying widow(er) • $441,000 if head of household	49	
50	Enter the amount from line 45	50	
51	Enter the amount from line 7 of the Qualified Dividends and Capital Gain Tax Worksheet in the instructions for Form 1040, line 44, or the amount from line 19 of the Schedule D Tax Worksheet, whichever applies (as figured for the regular tax). If you did not complete either worksheet for the regular tax, enter the amount from Form 1040, line 43; if zero or less, enter -0-. If you are filing Form 2555 or Form 2555-EZ, see instructions for the amount to enter	51	
52	Add line 50 and line 51	52	
53	Subtract line 52 from line 49. If zero or less, enter -0-	53	
54	Enter the smaller of line 48 or line 53	54	
55	Multiply line 54 by 15% (0.15) ▶	55	
56	Add lines 47 and 54	56	
	If lines 56 and 36 are the same, skip lines 57 through 61 and go to line 62. Otherwise, go to line 57.		
57	Subtract line 56 from line 46	57	
58	Multiply line 57 by 20% (0.20) ▶	58	
	If line 38 is zero or blank, skip lines 59 through 61 and go to line 62. Otherwise, go to line 59.		
59	Add lines 41, 56, and 57	59	
60	Subtract line 59 from line 36	60	
61	Multiply line 60 by 25% (0.25) ▶	61	
62	Add lines 42, 55, 58, and 61	62	
63	If line 36 is $186,300 or less ($93,150 or less if married filing separately), multiply line 36 by 26% (0.26). Otherwise, multiply line 36 by 28% (0.28) and subtract $3,726 ($1,863 if married filing separately) from the result	63	
64	Enter the **smaller** of line 62 or line 63 here and on line 31. If you are filing Form 2555 or 2555-EZ, do not enter this amount on line 31. Instead, enter it on line 4 of the worksheet in the instructions for line 31	64	

Form **6251** (2016)

IRS Form 8283

Form **8283** (Rev. December 2014) Department of the Treasury Internal Revenue Service	**Noncash Charitable Contributions** ► Attach to your tax return if you claimed a total deduction of over $500 for all contributed property. ► Information about Form 8283 and its separate instructions is at *www.irs.gov/form8283*.	OMB No. 1545-0908 Attachment Sequence No. **155**
Name(s) shown on your income tax return		**Identifying number**

Note. Figure the amount of your contribution deduction before completing this form. See your tax return instructions.

Section A. Donated Property of $5,000 or Less and Publicly Traded Securities—List in this section **only** items (or groups of similar items) for which you claimed a deduction of $5,000 or less. Also list publicly traded securities even if the deduction is more than $5,000 (see instructions).

Part I **Information on Donated Property**—If you need more space, attach a statement.

1	**(a)** Name and address of the donee organization	**(b)** If donated property is a vehicle (see instructions), check the box. Also enter the vehicle identification number (unless Form 1098-C is attached).	**(c)** Description of donated property (For a vehicle, enter the year, make, model, and mileage. For securities, enter the company name and the number of shares.)
A		☐	
B		☐	
C		☐	
D		☐	
E		☐	

Note. If the amount you claimed as a deduction for an item is $500 or less, you do not have to complete columns (e), (f), and (g).

	(d) Date of the contribution	**(e)** Date acquired by donor (mo., yr.)	**(f)** How acquired by donor	**(g)** Donor's cost or adjusted basis	**(h)** Fair market value (see instructions)	**(i)** Method used to determine the fair market value
A						
B						
C						
D						
E						

Part II **Partial Interests and Restricted Use Property**—Complete lines 2a through 2e if you gave less than an entire interest in a property listed in Part I. Complete lines 3a through 3c if conditions were placed on a contribution listed in Part I; also attach the required statement (see instructions).

2a Enter the letter from Part I that identifies the property for which you gave less than an entire interest ► ______
If Part II applies to more than one property, attach a separate statement.

b Total amount claimed as a deduction for the property listed in Part I: **(1)** For this tax year ► ______
(2) For any prior tax years ► ______

c Name and address of each organization to which any such contribution was made in a prior year (complete only if different from the donee organization above):

Name of charitable organization (donee)

Address (number, street, and room or suite no.)

City or town, state, and ZIP code

d For tangible property, enter the place where the property is located or kept ► ______

e Name of any person, other than the donee organization, having actual possession of the property ► ______

		Yes	No
3a	Is there a restriction, either temporary or permanent, on the donee's right to use or dispose of the donated property?		
b	Did you give to anyone (other than the donee organization or another organization participating with the donee organization in cooperative fundraising) the right to the income from the donated property or to the possession of the property, including the right to vote donated securities, to acquire the property by purchase or otherwise, or to designate the person having such income, possession, or right to acquire?		
c	Is there a restriction limiting the donated property for a particular use?		

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 62299J Form **8283** (Rev. 12-2014)

Name(s) shown on your income tax return | **Identifying number**

Section B. Donated Property Over $5,000 (Except Publicly Traded Securities)—Complete this section for one item (or one group of similar items) for which you claimed a deduction of more than $5,000 per item or group (except contributions of publicly traded securities reported in Section A). Provide a separate form for each property donated unless it is part of a group of similar items. An appraisal is generally required for property listed in Section B. See instructions.

Part I **Information on Donated Property—**To be completed by the taxpayer and/or the appraiser.

4 Check the box that describes the type of property donated:

a ☐ Art* (contribution of $20,000 or more) **d** ☐ Art* (contribution of less than $20,000) **g** ☐ Collectibles** **j** ☐ Other
b ☐ Qualified Conservation Contribution **e** ☐ Other Real Estate **h** ☐ Intellectual Property
c ☐ Equipment **f** ☐ Securities **i** ☐ Vehicles

*Art includes paintings, sculptures, watercolors, prints, drawings, ceramics, antiques, decorative arts, textiles, carpets, silver, rare manuscripts, historical memorabilia, and other similar objects.

**Collectibles include coins, stamps, books, gems, jewelry, sports memorabilia, dolls, etc., but not art as defined above.

Note. In certain cases, you must attach a qualified appraisal of the property. See instructions.

5	**(a)** Description of donated property (if you need more space, attach a separate statement)	**(b)** If tangible property was donated, give a brief summary of the overall physical condition of the property at the time of the gift	**(c)** Appraised fair market value
A			
B			
C			
D			

	(d) Date acquired by donor (mo., yr.)	**(e)** How acquired by donor	**(f)** Donor's cost or adjusted basis	**(g)** For bargain sales, enter amount received	**See instructions** **(h)** Amount claimed as a deduction	**(i)** Date of contribution
A						
B						
C						
D						

Part II **Taxpayer (Donor) Statement—**List each item included in Part I above that the appraisal identifies as having a value of $500 or less. See instructions.

I declare that the following item(s) included in Part I above has to the best of my knowledge and belief an appraised value of not more than $500 (per item). Enter identifying letter from Part I and describe the specific item. See instructions. ►

Signature of taxpayer (donor) ► Date ►

Part III **Declaration of Appraiser**

I declare that I am not the donor, the donee, a party to the transaction in which the donor acquired the property, employed by, or related to any of the foregoing persons, or married to any person who is related to any of the foregoing persons. And, if regularly used by the donor, donee, or party to the transaction, I performed the majority of my appraisals during my tax year for other persons.

Also, I declare that I perform appraisals on a regular basis; and that because of my qualifications as described in the appraisal, I am qualified to make appraisals of the type of property being valued. I certify that the appraisal fees were not based on a percentage of the appraised property value. Furthermore, I understand that a false or fraudulent overstatement of the property value as described in the qualified appraisal or this Form 8283 may subject me to the penalty under section 6701(a) (aiding and abetting the understatement of tax liability). In addition, I understand that I may be subject to a penalty under section 6695A if I know, or reasonably should know, that my appraisal is to be used in connection with a return or claim for refund and a substantial or gross valuation misstatement results from my appraisal. I affirm that I have not been barred from presenting evidence or testimony by the Office of Professional Responsibility.

Sign Here Signature ► Title ► Date ►

Business address (including room or suite no.) | **Identifying number**

City or town, state, and ZIP code

Part IV **Donee Acknowledgment—**To be completed by the charitable organization.

This charitable organization acknowledges that it is a qualified organization under section 170(c) and that it received the donated property as described in Section B, Part I, above on the following date ►

Furthermore, this organization affirms that in the event it sells, exchanges, or otherwise disposes of the property described in Section B, Part I (or any portion thereof) within 3 years after the date of receipt, it will file **Form 8282,** Donee Information Return, with the IRS and give the donor a copy of that form. This acknowledgment does not represent agreement with the claimed fair market value.

Does the organization intend to use the property for an unrelated use? . . . . ► ☐ Yes ☐ No

Name of charitable organization (donee) | **Employer identification number**

Address (number, street, and room or suite no.) | City or town, state, and ZIP code

Authorized signature | Title | Date

Choosing a Tax Professional

Anyone can call him/herself a tax preparer. However, only EAs, CPAs, and tax attorneys can represent clients during an audit.

Enrolled Agent (EA)	Worked for the IRS for 5 years or passed a 2-day IRS administered exam. Must submit to an IRS background check and continuing education requirements.
Certified Public Accountant (CPA)	Licensed by the state and must submit to continuing education requirements.
Tax Attorney	Licensed attorney specializing in tax law. Usually more expensive than other tax professionals, but excellent if facing complicated tax matters.
Return Preparer	These individuals primarily prepare tax returns. They may have independent business or work for such firms as H&R Block. They generally do not have any particular certification requirements.

Referral Services

American Institute of CPAs
www.aicpa.org

National Association of Tax Professionals
www.natptax.com

National Association of Enrolled Agents
www.naea.com

National Society of Accountants
www.nsacct.org

Specific Questions to Ask a Tax Professional:

- What professional qualifications and training do you have?
- How do you stay on top of the latest tax law changes, IRS orders, and court rulings?
- Are you subject to Continuing Education requirements?
- Is preparing tax returns a regular part of your business year-round?
- Are you available to answer tax questions throughout the year?
- Are you experienced with a tax situation like mine?
- Are you aggressive or conservative in interpreting tax laws?
- How much will my tax return cost to prepare?
- Do you have errors and omission insurance?
- Will you pay for penalties and interest from accounting errors?
- How much assistance would you provide if I were audited?

Working With a Tax Professional

- Find out what kinds of clients the tax professional has
- Ask for and check references
- Cut costs by preparing the tax return at home and having a professional review it
- Schedule meetings as early as possible in the New Year
- Bring all important documents to the meeting
- Keep very good records and review the tax return thoroughly. The taxpayer is ultimately responsible for the accuracy of his or her own return, regardless of who prepares it
- File IRS Form 2848, Power of Attorney and Declaration of Representative to authorize another person to represent you when dealing with the IRS

Special Tax Matters

Tax Matter Confidentiality

The IRS is now acknowledging confidentiality between a taxpayer and any federally authorized tax practitioner (i.e. CPA or Enrolled Agent). However, the privilege does not extend to tax shelters, criminal matters, or tax return preparation.

If confidentiality on tax matters is of concern, hire an attorney who in turn hires a CPA or enrolled agent. Attorney-client privilege would then extend to the tax practitioner(s) the attorney has hired.

Paid Preparers Can Now Work Directly With the IRS

Taxpayers can now check a box on their return to authorize the paid preparer who signs the return to work directly with the IRS to fix return processing problems.

Under the current system, the IRS cannot discuss any tax return matters unless taxpayers specifically authorize disclosure of tax information on Form 8821 or give preparers a power of attorney (such as Form 2848) to act for the taxpayer.

The new box will replace Form 8821 but only for return processing issues. Once the IRS completes processing the return, the authorization ends. The new box will not replace a power of attorney and thus will not let preparers represent or act for taxpayers. It also will not cover post-processing matters such as audits or installment agreements.

TAX FACT:

According to the IRS, about 60% of all taxpayers use paid tax preparers for their returns.

IRS Audits

The IRS uses audits as a way to check for filing, reporting, and payment compliance. IRS audits are triggered based on special computerized scores known as DIFs (Discriminant Functions). DIFs are differences in numbers compared to what others in similar tax situations have. Tax situations that are commonly audited include:

- Disproportionately low income and high deductions
- Gross business receipts of more than $100,000 on Schedule C
- Large non-taxable items that are reported
- Excessive charitable contributions
- Barter transactions
- Tax shelters and abusive trusts
- Poorly documented investment or business transactions
- Claiming the earned income credit
- Tip income
- Deductions for often-inflated business expenses (i.e. auto costs, hobby losses, travel and entertainment expenses, and home office deductions)

Types of Audits

Correspondence Audit	A taxpayer is contacted by mail and additional information is requested
Office Audit	A taxpayer is requested to go to an IRS facility with appropriate documentation
Field Audit	The IRS agent actually visits a taxpayer's home or place of business. This is done for more complicated returns to make the paperwork easier to access

Tax Software Packages

TurboTax
Intuit Inc.
(800)-440-3279
www.turbotax.com

TaxCut
H&R Block
(888)-428-9288
www.taxcut.com

Do not rely on tax software to figure out how to treat complicated types of income, deductions, or other complex matters since many areas of the tax law are open to interpretation. **Seek expertise from a qualified tax professional to assist with complex tax issues.**

Important Audit Tips

Taxpayer Rights	Take all deductions you're entitled
	Review IRS Publication 1, *Your Rights as a Taxpayer*
	New rights and tax relief have been created for "innocent spouses"
	A Taxpayer Advocate Service is available if one cannot resolve issues with the IRS through normal means using letters and phone calls
Paperwork	Don't sign anything the IRS sends you until you read it, understand it, and agree with it
	Respond to any notice from the IRS promptly, addressing clearly and specifically only the issues raised by the IRS
	Keep a copy of correspondence sent to the IRS and send all correspondence to the IRS by certified mail
	If there is any difference in your records versus the records received from financial institutions, clear it up before filing
	Although the IRS may issue a no-change letter after an audit, the IRS can reopen cases that have been closed until the statute of limitations on the return has passed (generally three years)
Tax Pros	Consult with an accountant if you believe the IRS is wrong
	If audited, consider being represented by a tax professional with experience in dealing with auditors
Watch Out	Do not volunteer any information to the IRS or an auditor unless legally obligated to provide such information
	Never cash a refund check if not sure it is deserved. Once the IRS discovers the mistake, the agency will demand that interest is paid from the date you cashed it
	File for an extension on a current tax return if being audited. If a taxpayer files while being audited, the latest tax return becomes available for audit as well.
Easy Stuff	Be thorough, check the math, and sign the return
	Mail return with adequate postage or file the return electronically

Organizations and Websites

Bankrate www.bankrate.com	*Offers news about recent tax changes, many financial calculators, and comparisons of state tax rates.*
Fairmark Press Tax guide www.fairmark.com	*Offers hundreds of pages of plain-language tax guidance for investors.*
Federation of Tax Administrators www.taxadmin.org	*Offers a directory of general state tax rate information and links to the official state tax sites.*
Certified Financial Planner® Board of Standards, Inc. www.cfp.net	*Maintains a database of individuals with active CFP® certifications or those disciplined by the CFP® Board.*
Internal Revenue Service www.irs.gov/publications	*Offers tax information. Publications and forms can be downloaded, viewed, and printed, including the following discussed in this workbook:*

IRS PUBLICATIONS:

- **Publication 521:** *Moving Expenses*
- **Publication 550:** *Investment Income and Expenses*
- **Publication 926:** *Household Employer's Tax Guide*
- **Publication 936:** *Home Mortgage Interest Deduction*
- **Publication 970:** *Tax Benefits for Education*

IRS FORMS:

- **Form 2848:** *Power of Attorney and Declaration of Representative*
- **Form 4684:** *Casualties and Thefts*
- **Form 5695:** *Residential Energy Credits*
- **Form 6251:** *Alternative Minimum Tax—Individuals*
- **Form 8283:** *Noncash Charitable Contributions*
- **Form 8822:** *Change of Address*
- **Form 8857:** *Request for Innocent Spouse Relief*

NOLO Press www.nolo.com	*A leading publisher of self-help law books and software. Their website offers a vast array of information and education on everyday legal matters.*

Exercise Answers

Page 6:

1. TRUE
2. TRUE
3. C
4. D

Page 8:

1. TRUE
2. FALSE
3. TRUE
4.

	Feature	Regular	AMT
A.	A required calculation	x	x
B.	Flat tax		x
C.	Progressive tax	x	
D.	Allows mortgage interest deduction for a primary home	x	x
E.	Long-Term capital gains are taxed at a maximum rate of 15% (20% for those in the 39.6% bracket)	x	x
F.	Many deductions and credits are reduced or eliminated		x
G.	Allows a certain amount for exemptions	x	x
H.	Indexed for inflation	x	x
I.	Charitable deductions are allowed	x	x

Page 13:

1. E
2. F
3. H
4. K
5. C
6. D
7. L
8. J
9. A
10. B
11. I
12. G

Page 17:

1. **A.** Yes; **B.** $5,500 each; **C.** No
2. FALSE
3. FALSE
4. **A.** Yes; **B.** His earnings would be subject to both penalties and taxes since this is not a qualified distribution (the account is only three years old).

Page 18:

1. They would be able to deduct the remaining $2,700 in amortized points.

Page 22:

1. No, they are above the AGI limit for the child tax credit

Page 24:

1. Enter the yield on a municipal bond or fund.	**5%**
2. Enter your marginal federal tax rate.	**25%**
3. Subtract Line 2 from 100%	100% - 25% = **75%**
4. Divide Line 1 by Line 3	5% ÷ 75% = **6.67%**
5. Enter the yield on a taxable bond or fund	**6.3%**
6. If Line 5 is larger than Line 4, the taxable bond or fund provides a higher after-tax return. If line 5 is smaller, the municipal bond or fund provides a higher after-tax return.	Municipal

Page 25:

1. FALSE
2. TRUE
3. TRUE
4. FALSE
5. TRUE
6. A

Page 27:

1. A
2. A
3. C
4. B

Page 29:

1. Under FIFO, Maria would have a taxable gain of $1,000 ($20 × 50). Under specific identification, Maria could sell the shares purchased on February 15, minimizing her gain to just $500 ($10 × 50 shares).
2. TRUE
3. $10 ($20 ÷ 2)
4. FALSE
5. No, since it most likely would violate the wash sale rule by buying substantially identical securities within 30 days of the sale.
6. FALSE—only in taxable accounts.
7. No,it is not completely worthless.
8. TRUE
9. $3,000
10. $3,000

Page 30:

Investment/Vehicle	Pre-Tax	Tax-Deferred	Tax-Free
Savings Bonds		X	X
401(k) Plan	X	X	
Tax Deductible IRA	X	X	
Non-Dividend-Paying Growth Stocks		X	
Roth IRA			X
Municipal Bonds			X
403(b) Plan	X	X	
Non-Deductible IRA		X	
Treasury Bonds			X[1]
457 Plan	X	X	

[1] Treasury Bonds are tax-free at state and local, but fully-taxable at federal level

Page 35:

1. No
2. Anna and Marc should have listed each donated item on a piece of paper and then stapled this list to the donor receipt. Then they should have used a valuation guide to list the value to the property donated based on its condition.
3. Only a donor receipt from the qualified charity is required.
4. In addition to putting together a detailed list of all donated items using a valuation guide, Marc and Anna should have taken pictures of the items for back-up.
5. No, since the amount of their non-cash charitable contributions for the year is less than $500. However, if their itemized goods totaled over $500, it would be necessary to complete Form 8283.

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