

## Table of Contents

### Page 2:

- Solo 401(k) Filing Requirements
- Self-employment Tax on CRP Payments
- New Deadlines

### Page 3:

- Scams & Fraud
- 2017 Refund Delays

### Page 4:

- 2016 Tax Brackets
- Mileage Rates
- Useful Bits



### Must have 1098-T to claim education credits

**We will no longer be able to do any education credits without having the 1098-T. This is most likely found on the student account online rather than being mailed out**

### Nexus Questionnaires- What to do?



Are you operating your business in multiple states? Are you filing income tax returns or collecting and paying sales tax in those states? If you are not, you may be opening yourself up to potential penalties and interest if the state catches wind of your activities. With the ever-tightening state budgets, governments are looking for any possible way to raise revenues. Catching out-of-state businesses that are doing business in their state is one of those methods to bolster sales and income tax revenues.

“Nexus” is the term for a business’ substantial connection with the state. When a business has nexus, it is generally required to file income tax and/or sales and use tax returns with for that state. Once it is determined that you have nexus, it is difficult to prove otherwise.

There are many ways that state departments of revenue find out if you have a connection with their state. A Nexus Questionnaire is a simple way for the department of revenue to find out if your connection is significant enough to warrant receiving tax returns from you. If you happen to receive a nexus questionnaire from a particular state, do not take it lightly! Each of your answers will be part of your permanent record with the department of revenue, and will be compared to the state’s regulations to determine if you are required to file tax returns with that state.

If you receive a nexus questionnaire, please contact your tax advisor for additional guidance.

### Installment Sales

With the capital gains tax growing from 15% to 20% when you enter the 39.6% tax bracket along with the net investment income tax of 3.8% (when applicable) after income of \$200,000 (single) and \$250,000 (married filing joint), we have seen an increased number of installment sales (contracts for deed). The tax theory for doing this would be that the capital gains could be kept in a lower tax bracket, keeping them at the 15% tax rate, by stretching the sale over a number of years rather than taking all in one year.

We wanted to give a word of caution on this; the capital gains will be subject to the current tax law each year. So just keep in mind that it may keep you in a 15% capital gains rate with current tax law, we do not know what the future lawmakers will do with capital gains.

Also, keep in mind that installment sales do not work well with depreciable assets (such as equipment) as the depreciation must be recaptured all in the first year.

Should you have questions on whether an installment sale is advantageous tax-wise, we would be happy to go through the pros and cons with you.

### Solo 401(k) Filing Requirements

Solo 401(k) plans can be a great way for someone in business who is either a sole proprietorship with no other employees or have a business entity wherein they are the only one working in it. Solo 401(k) plans can allow such businesses to contribute higher amounts into a retirement plan. For 2016, elective deferrals can be up to \$18,000 (\$24,000 if age 50 or over) plus employer non elective contributions up to 25% of compensation as defined by the plan. Total contributions cannot exceed \$53,000 annually.

Given the higher contribution limit, there is one filing requirement you must be aware of. Once the combined value of assets is over \$250,000, the administrator of the plan is required to file Form 5500EZ with the IRS and it needs to be filed by July 31<sup>st</sup> for the prior December 31<sup>st</sup> year end.

Many investment companies include the filing within their administration costs, however there are some that do not. If the company does not, they do frequently send correspondence prompting the taxpayer to do so.

If you have a Solo 401(k) plan and the value is over \$250,000, we would encourage you to make sure the form is being filed. There are penalties for not filing.

Should you have questions about whether you are a good candidate for a Solo 401(k), please give us a call. If you have a plan and want to make sure the proper filing is being done, we encourage you to contact your financial advisor who holds the plan.

### New Deadlines

There are several filing deadline changes for 2017 (2016 tax year) that may affect you. The main changes affect 1065s, 1120s, W-2s, and 1099s.

In the past, Form 1120 was due on 3/15, but it will now be due on 4/15. The other form affected is Form 1065. This form was due on 4/15, but it is now due on 3/15. An easy way to remember this is if the entity issues a K-1, that tax return is now due 3/15.

The other deadline changes affect 1099s and W-2s. 1099s and W-2s are still due to the recipients by 1/31, but the date that they are due to the IRS/Social Security Administration has changed. Both forms were previously due to their respected agencies by 3/31 (if filed electronically). Now, W-2s and 1099s are due to their respected agencies by 1/31. Some 1099s can still be submitted by 3/31, but the majority of 1099s are due 1/31, so it is best to consider 1/31 as your deadline.

### Record Retention Guidelines

**For a complete list visit our website**

**[www.elocpa.com](http://www.elocpa.com) under Tax Center Resources**



### **Self-Employment Tax on CRP Payments**

Whether you pay self-employment (SE) tax on CRP has come into question over the last couple years. The IRS says CRP payments are subject to SE tax even if the taxpayer is not actively farming. Per the IRS, the only way out of SE tax on CRP payments is if the taxpayer is receiving Social Security or disability benefits.

However, in 2014, the U.S. Court of Appeals ruled that CRP payments in the hands of a **non-farmer** are not subject to SE tax (Morehouse v. Comr.). The court referred to Rev. Ruling 60-32 that states government payments attributable to idling farmland are not subject to self-employment tax when received by a person who is not a farmer. The court suggested that the IRS should create a new Rev. Ruling if they thought otherwise. However, the IRS did not. Instead, the IRS issued a non-acquiescence and said they would continue auditing individuals and enforcing the SE tax.

This was recently challenged by a Nebraska farmer who reported CRP payments on Form 4835, where it was not subject to SE tax. The IRS sent the taxpayer a letter saying he owed SE tax. The taxpayer then wrote a letter back to the IRS saying the CRP payments were properly reported on Form 4835. The IRS then closed the inquiry and there were no changes in the taxpayer's tax return.

This confirms that CRP payments are not subject to SE tax if the taxpayer received social security or disability benefits OR if the taxpayer is not actively farming (barring any IRS changes).



## Scams & Fraud

In today's technology-oriented world, it's important to be mindful of the scams and fraud that are occurring. We'll focus on tax scams and fraud in this article.

The IRS has seen an increase in the number of IRS-impersonation telephone scams. Scammers place calls to taxpayers claiming to be employees of the IRS but are not. These scammers use fake names and bogus IRS identification badge numbers among other tactics to try and mislead taxpayers. These scammers even go as far as altering their caller ID to make it look like call from the IRS. The targeted taxpayers are told they owe money to the IRS and that the amount due must be paid promptly otherwise taxpayers are threatened with arrest, lawsuit or other means.

The IRS also reported a nearly 400% increase in phishing and malware incidents through email during early 2016. Phishing is "the activity of defrauding an online account holder of financial information by posing as a legitimate company" and malware is, "software that is intended to damage or disable computers and computer systems." The emails that are received are designed to trick taxpayers into thinking that the email is from the IRS or another trusted company. These emails may request a taxpayer to update his or her information, click a link or perform another action. These emails may often contain links to harmful websites that can steal a taxpayer's information or may contain harmful software that is unknowingly downloaded onto a taxpayer's computer once the email or email attachment is opened.

Things to keep in mind regarding the IRS:

1. Will not contact taxpayers by email, text messages or social media
2. Will not threaten taxpayers with lawsuits, imprisonment or other enforcement action
3. Will not demand immediate payment of taxes via prepaid debit card, gift card or wire transfer
4. Will not demand payment of taxes without the opportunity to question or appeal the amount
5. Will not request credit or debit card numbers over the phone

If you or someone you know may have been affected by the information above, feel free to contact our office. Please also see the IRS's website at IRS.gov and search "scam" for further steps that can be taken to protect your information and to inform yourself of recent tax scams.

### IRS Correspondence

**Do not assume it is legit- get to your accountant for review as soon as possible. A reminder that the IRS does not contact by phone or email- they are not real!**

### 2017 Refund Delays



If you are expecting a refund in 2017 for your 2016 taxes, expect a delay. There are a few things that are leading up to this situation. First, the IRS is now required to delay refunds that include Earned Income Tax Credit and Additional Child Tax Credit. Even if one of these credits is only part of the refund amount, the full refund will be delayed until at least February 15. Because February 15 will be the start of processing these refunds, the actual receipt of the refund could be even later.

Another cause of the delayed refunds is due to identity fraud. The IRS, as well as state agencies, will be implementing more safeguards this coming tax season to help prevent identity fraud, which will lead to a longer refund process. Even with the additional safeguards, it is recommended to file as soon as possible to help avoid identity theft through tax fraud.

With these delays many people can still expect a timeframe for their refund of approximately 21 days. If you have questions regarding your refund, the IRS website has a "Where's My Refund?" link that will be your best source of information. This can be found at <https://www.irs.gov/refunds>.

### IP-PIN

**Watch for the IP-PIN if you've had tax identity theft. If you have had identity theft you will need a special pin to file in the future. Be sure to get these letters to your accountant as soon as they arrive.**

# 2016 Income Tax Brackets

Filing Status	Taxable Income	Tax Rate
Single	\$0 to \$9,275	10%
	\$9,275 to \$37,650	15%
	\$37,650 to \$91,150	25%
	\$91,150 to \$190,150	28%
	\$190,150 to \$413,350	33%
	\$413,350 to \$415,050	35%
	\$415,050	39.6%
Married Filing Jointly or Qualified Widow(er)	\$0 to \$18,550	10%
	\$18,550 to \$75,300	15%
	\$75,300 to \$151,900	25%
	\$151,900 to \$231,450	28%
	\$231,450 to \$413,350	33%
	\$413,350 to \$466,950	35%
	\$466,950	39.6%
Married Filing Separately	\$0 to \$9,275	10%
	\$9,275 to \$37,650	15%
	\$37,650 to \$75,950	25%
	\$75,950 to \$115,725	28%
	\$115,725 to \$206,675	33%
	\$206,675 to \$233,475	35%
	\$233,475	39.6%
Head of Household	\$0 to 13,250	10%
	\$13,250 to \$50,400	15%
	\$50,400 to \$130,150	25%
	\$130,150 to \$210,800	28%
	\$210,800 to \$413,350	33%
	\$413,350 to \$441,000	35%
	\$441,000	39.6%
Estate & Trusts	\$0 to \$2,550	15%
	\$2,550 to \$5,950	25%
	\$5,950 to \$9,050	28%
	\$9,050 to \$12,400	33%
	\$12,400	39.6%

## Useful bits of information:

	2016	2017
Personal exemptions	\$4,050	\$4,050
Standard deductions for:		
Single	\$6,300	\$6,350
Filing joint/qualifying widow	\$12,600	\$12,700
Filing separately	\$6,300	\$6,350
Head of household	\$9,300	\$9,350
Additional deduction for taxpayers 65 and over or blind:		
Single	\$1,550	\$1,550
Married Filing Jointly	\$1,150	\$1,250
Head of Household	\$1,550	\$1,550
Phase-out of Personal Exemptions with AGI above:		
Single	\$259,400	\$261,500
Married Filing Jointly or Qualifying Widow(er)	\$311,350	\$313,800
Married Filing Separately	\$155,650	\$156,900
Head of Household	\$285,350	\$287,650
FICA taxable wages maximum	\$118,500	\$127,200
Kiddie Tax on unearned income in excess of	\$2,100	\$2,100
Section 179 depreciation	\$500,000	\$500,000
Student loan interest deduction	\$2,500	\$2,500
Self-employed health insurance	100%	100%
Social security limit - age 62 until full retirement age	\$15,720	\$16,920
Adoption Credit (per eligible child)	\$13,460	\$13,570
	non-refundable	
Annual Gift Tax Exclusion	\$14,000	\$14,000
Lifetime Gift Exemption	\$5,450,000	\$5,490,000
IRA Annual Contribution Amount	\$5,500	\$5,500
Catch-up contribution (taxpayers 50 & over)	\$1,000	\$1,000

## Mileage Rates

### For 2016: (beginning Jan 1, 2016)

Business:	54¢
Charitable:	14¢
Medical or moving:	19¢

### For 2017: beginning Jan 1, 2017

Business:	53.5¢
Charitable:	14¢
Medical or moving:	17¢



### Mitchell Office

1820 N Sanborn Blvd  
PO Box 249  
Mitchell, SD 57301  
p. 605-996-7717  
f. 605-996-4091

### Chamberlain Office

316 Sorensen Dr  
Chamberlain, SD 57325  
p. 605-234-6055  
f. 605-234-5417

### Huron Office

239 Wisconsin Ave SW #201  
Huron, SD 57350  
p. 605-352-8573  
f. 605-352-8594

### Sioux Falls Office

4804 S Minnesota Ave  
Sioux Falls, SD 57108  
p. 605-271-1302

### Miller Office

114 E 3rd St  
Miller, SD 57362  
p.605-853-2130