ELO Certified Public Accountants Prof LLC

www.elocpa.com

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Update Around the Offices

For over 35 years ELO Prof LLC has been a part of Mitchell, SD. Today, we now also have locations in Sioux Falls, Huron, Chamberlain, and Miller, SD. ELO employs over 30 professional staff members, including 5 Partners, 16 Accountants, 5 Accounting Support members and 8 Administrative team members. We are an accounting firm committed to quality service, and that begins with our qualified team. We are ready to share our expertise and provide quality service to our clients. We're committed to providing problem-solving expertise and quality service in a cost effective manner.

For more information, please visit us on our website at www.elocpa.com or check out our Facebook page!

Have you checked out our website?

NetClient portals allow you to securely view your tax returns electronically

Organizers, tax summaries, and 1099/W-2 forms are now available

Year-End Tax Planning Considering New Tax Law

There are major changes to our current tax law that are on the horizon. One can expect to see new law by the end of the year, but nothing is certain. We wanted to inform you of major items to keep in mind as we wrap up 2017:

Lower tax rates for 2018. Both the House and Senate tax bills would reduce tax rates for many taxpayers, effective in 2018. A few ideas to utilize the lower rates next year are below:

If you are expecting a year-end bonus, ask your employer to delay payment until after year end.

Postpone regular IRA to Roth IRA conversions; pay taxes on the conversation at a lower rate

Businesses on the cash basis can consider billing at the end of the year or waiting until 2018

Businesses on the accrual basis might be able to postpone completion of a job or delivery until 2018

Disappearing deductions, larger standard deductions. Many popular tax deductions would be nixed and a larger standard deduction would be enacted. Here's what to consider doing now:

State and local tax, sales tax, and real estate tax deductions may be limited or eliminated. If you itemize deductions, consider prepaying your taxes that will be due in 2018.

Standard deductions may be as high as $12,000 for single filers and $24,000 for joint filers. Consider accelerating your charitable giving before year end if you may not be able to itemize in the future.

*The House-passed bill but not the Senate would eliminate the itemized deduction for medical expenses. If you **know** you will be able to claim medical expenses as an itemized deduction, consider accelerating discretionary medical expense payments before year end.

Other year-end strategies. Keep these in mind to utilize current deductions and credits.

Buy that plug-in electric vehicle you've been eyeing. The House-passed bill would nix this tax credit but the Senate's bill would not.

Finalize your principal residence sale before year end. Current law allows $250,000/ $500,000 tax free gain amounts if you've owned and used the property as your principal residence for 2 out of 5 years. New law may require 5 out of 8-year use before any gain exclusion would apply.

Lastly, the proposed tax bill changes do make major renovations to business tax as well but these provisions are highly debated and are subject to change dramatically. Until there is signed legislation, we do not recommend making any changes to organizational structures. Please contact your tax advisor at ELO to discuss how these potential changes may affect your situation.

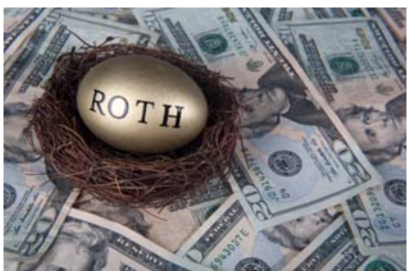
Roth IRA Conversion Strategies

Distributions from traditional Individual Retirement Accounts (IRAs) and 401(k)s are taxed as ordinary income. However, distributions from a Roth IRA are tax-free if they are "qualified distributions," that is, if they are made (1) after the 5 tax-year period that begins with the first tax year for which the taxpayer made a contribution to a Roth IRA, and (2) when the account owner is 59 ½ years of age or older.

If you have a Net Operating Loss or you expect other business or farm losses to create an overall tax loss for the year, it may be advantageous to convert all or a portion of your traditional IRA into a Roth IRA. Depending on the amount converted, it could be done tax-free, penalty-free, and ensures tax-free distributions in the future.

Careful strategic tax planning is important when deciding whether you should make a conversion. If you make the conversion and did not estimate your income properly, you can recharacterize (reverse or cancel out) the conversion. Ideally, a recharacterization should be made by the due date (plus extensions) of a taxpayer's return for the affected year, and reflected on the return for that year. However, a recharacterization can still be made after a taxpayer has filed his or her return for the year when a conversion was made. The taxpayer can make the recharacterization within six months of the unextended due date of the return in which he or she made the conversion to a Roth IRA.

Please consult your ELO advisor if you believe a Roth conversion may help you or if you have any additional questions.



Paying SE Tax is Part of Doing Business

"In this world, nothing can be said to be certain, except death and taxes" – Benjamin Franklin

No one necessarily *wants* to pay taxes, but let us try and help you understand why paying self-employment tax (SE) can be a good thing. Self-employed individuals, along with active partners in non-rental partnerships and LLC's generally must pay SE tax, as well as income tax.

We believe that healthy things grow. If you are a business owner, paying SE tax is generally a sign of a healthy, and possibly growing, business. If your business is generating a profit, you as the business owner are paying SE tax on that profit. Remember that individuals earning a paycheck from an employer are also paying this tax, although their employer is paying for half of it.

At some point you probably wish to retire, and the Social Security program can provide you with some retirement benefits. Self-employment tax contributes to an individual's Primary Insurance Amount (PIA), which is the Social Security benefit that an individual is eligible for at his/her full retirement age. The greater the SE tax paid on earned income during an individual's lifetime leads to a higher Social Security benefit at retirement.

If you have any further questions regarding this topic, do not hesitate to call our office and speak with your ELO advisor.

Record Retention Guidelines

For a complete list visit our website

www.elocpa.com under Tax Center

Information Organization

Each year ELO prepares thousands of tax returns and each one is unique. This means that the record keeping is unique as well. To create a more unified system, as well as assist our clients in feeling organized for their tax returns, we have implemented a new organizer for individual returns. This simplified organizer will work as a check list of general items that you should remember to send in for your return. It also helps us get answers to basic questions that are required to be verified on an annual basis. We have worked hard to minimize this organizer to a single page to save you time in completing it in full. Many times a return is held up while trying to make contact to verify these items so it is important to fill out and review as much as possible.

ELO also provides summary organizers for farmers, businesses, and rentals that we request to be utilized, if applicable. These organizers will help you summarize data all in one area when an electronic system is not used to track the accounting activity. If you are using QuickBooks to record your activity, we request an electronic backup of the file. This allows us to more quickly determine if anything is missing from year to year.

Please consult your ELO advisor with any additional questions.

These organizers and summaries are available on our website in the Tax Center.

www.elocpa.com/tax-center/tax-summary-forms

Strategic Considerations for Estate Planning

Succession planning and estate planning require careful consideration of the goals and objectives of those individuals involved with the planning process. Equity owners eventually face the issue of transference of control and ownership of their business interests. Consideration is given to family participation, equity value, timing of transfer, method of payment and net tax consequence. For many business owners, the transfer of their equity interest is a major component of their retirement plan. Following is a summary of certain matters to consider when evaluating the personal and business objectives of a succession or estate plan:

Goals and Objectives—Identify the personal and financial goals of ownership:
Is there a preferred buyer?
Are employees prospective buyers?
Are family members prospective owners?
What is the preferred timing of ownership transfer?
Will be there be a partial transfer of ownership initially?
How dependent are the owners on the net sale proceeds for their retirement needs?
Will real estate transfer differently from other operating assets?
If equity transfer involves children, will there be consideration for other children?

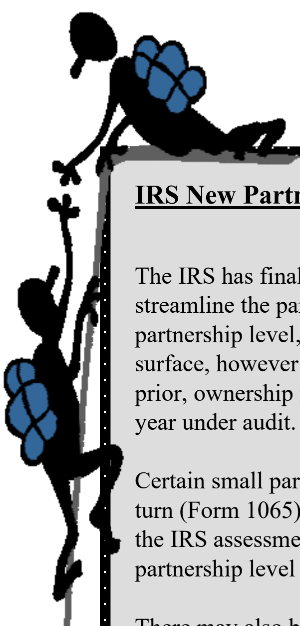
Tax Consequence—Understanding the tax consequences of the sale/transfer of an ownership interest is a primary concern in the structuring of a succession or estate plan. Consideration should be given to projected tax costs and after tax net proceeds. Like-kind exchanges under Sec 1031 are an option if tax deferral or investment alternatives are an objective.

Organizational Structure—Does the company have a defined organizational structure? Are there key employees other than ownership? Do employees have an interest in ownership?
How is the company owned? What is the desired ownership structure?

Operating Strengths—Review and identify the strengths of the organization. Consideration should be given to financial position, available financing, capital needs and investment, and debt levels. Management skill levels, including oversight over production, marketing and sales, risk management and financial should also be considered

Labor Market—Consideration should be given to the labor market including desired skill levels, availability, direct cost and benefits. Anticipated change in labor demand should also be considered.

If you have any questions or would like more information, please consult with your ELO tax advisor.



IRS New Partnership Tax Rules

The IRS has finalized regulations that simplify the audit of partnership tax returns. These regulations are effective January 1, 2018 and seek to streamline the partnership audit process and the collection of any tax imposed. The new audit regulations default to auditing a partnership at the partnership level, and impose any tax adjustments to the partnership itself, rather than the individual partners. This may seem beneficial on the surface, however if additional tax is assessed, it would be at the highest individual tax rate. Since the audited year would likely be at least one year prior, ownership interests may have changed hands, resulting in a disproportionate share of tax paid by the current partners versus those of the year under audit.

Certain small partnerships are able to elect out of the new audit regulations as part of their timely filed (including extensions) partnership tax return (Form 1065), however many tiered partnerships would not be able to make this election. In addition, a partnership can elect within 45 days of the IRS assessment to "push-out" the assessment to the reviewed year partners. If the partnership does nothing, the tax will be assessed at the partnership level and paid at the highest tax rate.

There may also be adjustments you should make to your operating agreement in order to clarify and document the partnership's intentions in the event of an audit or disagreement between partners. If you have any questions or would like more information, please consult with your ELO tax advisor.

Succession Planning

For many business owners, their final strategic action is often that of succession planning. Transferring ownership control and the underlying assets of an operating business is a process involving time and careful consideration. A properly designed and executed succession plan may influence the future success of the operation and the financial stability of the buyer and the seller.

Although sometimes considered an exit strategy, a succession plan may often be more involved. An exit strategy can be as simple as selling to a competitor or liquidating the assets when the seller is ready to retire. A succession plan or strategy, however, is often more complex and might be implemented over an extended period of time. It could likely include consideration for seller financing, multiple transfers of ownership equity over time, ongoing real estate or equipment leases, and continued participation by the seller.

A succession plan will generally involve either unrelated management level employees or direct family members, or sometimes, a combination of both. In either case, there may be additional consideration necessary in the succession plan as often times, the purchasing parties do not have adequate capital to secure the purchase and may rely on seller financing or outside equity participation. This is particularly true for succession plans involving children or other related parties.

In many succession plans, the lack of capital or equity held by children often necessitates a transfer of equity ownership over time and/or a certain level of gifting to provide the initial capital necessary to finance a subsequent purchase. In addition, the "equitable" treatment of all children is a sensitive issue when transferring business assets to children involved in the operations vs. other children.

The relationships developed over time in family structures can often facilitate or complicate succession planning for family owned businesses. Issues between parents and children, or between siblings, might surface while transitioning control to various family members during a succession plan. It is also important to understand and maximize the various skill sets of different family members while transitioning the management responsibilities of the Business.

Succession Planning cont.

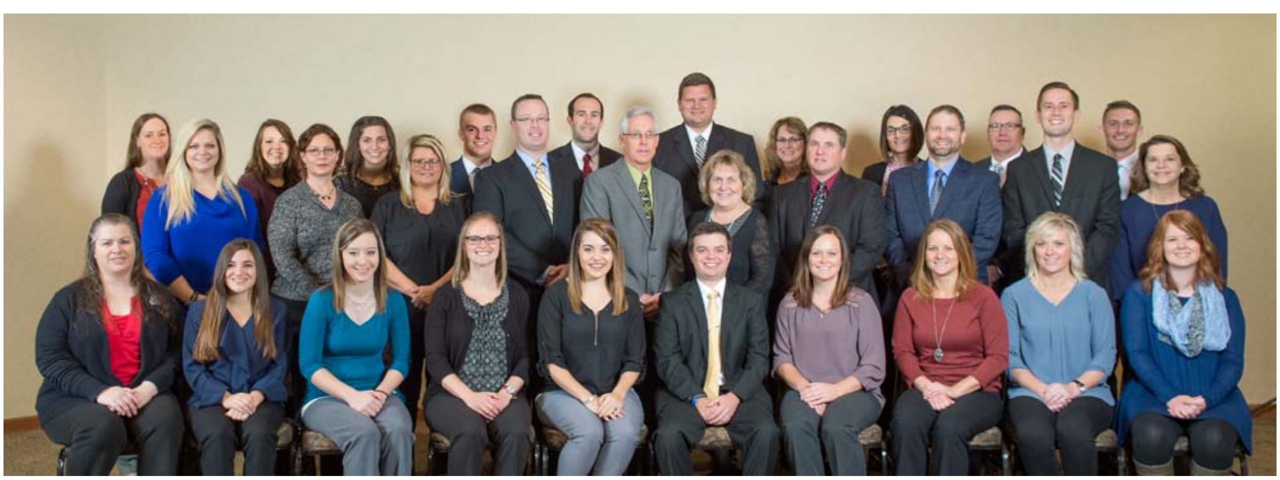
Following are areas of discussion and resolution necessary to implement a succession plan for related parties:

- Goals and objectives of the parties involved
- Financial needs of retiring party(s)
- Financial resources and personal equity available to participating next generation
- Management level skill sets and areas of responsibility of participating next generation
- Use of family partnerships or similar entities to facilitate a transfer of equity over time
- Assets to be retained by retiring party and potentially leased to next generation (ie, land and buildings?)
- Operating assets to be sold or transferred (equipment, vehicles, etc)
- Terms of payment (cash or seller financing)
- Objectives of retiring/selling party relative to non-business heirs. Discussion should include other assets available for equitable treatment.
- Assets to be transferred through inheritance including discussion related to "step up basis"

Consistent and clear communication may be the most important aspect of a meaningful succession plan. The assistance of legal and financial advisors can assist in identifying, facilitating and documenting the communication process between family members. Ultimately, the successful transfer of operating assets of a family owned business is dependent on the long-term objectives and abilities of the various family members. Please consult your ELO advisor with any additional questions.

College Funding

Are you looking for options for funding your child's post-secondary education? You may want to check out a 529 Plan. A 529 Plan is a tax-advantaged savings plan designed to help families set aside funds for future college savings. Funds contributed to a 529 Plan grows tax free and distributions are tax free if used for qualified higher educational expenses. In general, qualified educational expenses means tuition, fees, books, supplies, and equipment requirement for enrollment. The IRS has expanded these expenses to include the purchase of computer or peripheral equipment, computer software, or internet access expenses that are used by the student while enrolled at an eligible educational institution. Room and board expenses are also eligible. Keep in mind that contributions to 529 Plans are non-deductible for Federal Income Tax purposes. Lastly, keep in mind that some states do offer incentives for utilizing state 529 Plans and 529 Plans owned by a dependent student or a parent are taken into consideration for financial aid eligibility.



In Addition to Tax and Attest Services, did you know...

ELO offers Financial Services. We are partnered with HK Financial Services (HKFS) of Dubuque, Iowa, to provide investment advisory services serving your financial needs in asset management, investment advisory, risk management and financial planning for retirement. HKFS is a well-respected partner that works with over 90 CPA firms across the country. Like ELO, they believe in the team approach when it comes to providing services to our clients. If interested, please let your accountant know and we will begin helping today!

ELO has a full staff of Accounting Support. This team is trained and skilled not only in accounting but various software systems. They have become the leaders in automation. They can help get you set up with more automation in your bookkeeping system, leaving you more time to analyze the financials and spend time working in your business. They offer remote, in-house and on-site support. Give them a call today!

ELO offers Business Consulting? Thinking of starting a business, selling a business, or experiencing tougher times and want an outside independent view of what could be done and paths to take to get the business back on track? We'd love to help!

ELO has teams to help with various industries, including but not limited to, Agriculture, Manufacturing, Construction, Not-for-Profit organizations, and many others. Contact us today and we can put you in touch with the right consultants.

ELO offers Valuation Services? Are you starting to think of succession planning? Wonder what you should expect to get out of your business? Our Valuation team can help take the guess work out of this and offer suggestions. We recommend you start this process earlier than later. Ideally, the conversation should begin about 5 years prior to wanting to retire.

ELO now has an office in Sioux Falls which adds to our other locations of Mitchell, Huron, Chamberlain and Miller. We are now over 30 professionals and growing. Very exciting!

Please consult your ELO advisor with any additional questions.

What to do if you get an IRS Letter

Everyone (and we mean everyone) panics when you receive a letter from the IRS. When this happens, you're not sure whether you should read it or throw it away and hope they forget about you. What exactly should you do? The first thing you should do is not panic, but <u>never</u> ignore IRS correspondence. Millions of letters and notices go out every year, so you are not alone.

If you receive a notice from the IRS, we ask that you review it carefully and do not thoughtlessly agree with what the IRS says; they are frequently wrong. You should also be extremely careful if an IRS letter requests personal information as this could be a scam. We highly recommend you review it with your tax advisor before acting.

If you do agree with the correction, follow the directions on the letter. You usually don't need to reply unless a payment is due.

If you don't agree with the correction, it's important that you respond (or have a professional respond) as requested. Please include any documentation that they may ask for or anything that may help resolve the issue.

As difficult as it may be, try to be patient with the IRS. According to the IRS' website, you should allow at least 30 days for a response. However, in our experience it will likely be closer to 60-90 days. During this time, it is very possible that you will receive additional letters regarding the same matter.

ELO has a team dedicated to handling IRS correspondence. If you have any questions or concerns about a letter you have received, please contact our office immediately so we can help get it resolved.

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.

2017 Income Tax Brackets

Filing Status	Taxable Income	Tax Rate
Single	$0 to $9,325	10%
	$9,325 to $37,950	15%
	$37,950 to $91,900	25%
	$91,900 to $191,650	28%
	$191,650 to $416,700	33%
	$416,700 to $418,400	35%
	$418,400	39.6%
Married Filing Jointly or Qualified Widow(er)	$0 to $18,650	10%
	$18,650 to $75,900	15%
	$75,900 to $153,100	25%
	$153,100 to $233,350	28%
	$233,350 to $416,700	33%
	$416,700 to $470,700	35%
	$470,700	39.6%
Married Filing Separately	$0 to $9,325	10%
	$9,325 to $37,950	15%
	$37,950 to $76,550	25%
	$76,550 to $116,675	28%
	$116,675 to $208,350	33%
	$208,350 to $235,350	35%
	$235,350	39.6%
Head of Household	$0 to $13,350	10%
	$13,350 to $50,800	15%
	$50,800 to $131,200	25%
	$131,200 to $212,500	28%
	$212,500 to $416,700	33%
	$416,700 to $444,550	35%
	$444,550	39.6%
Estate & Trusts	$0 to $2,550	15%
	$2,550 to $6,000	25%
	$6,000 to $9,150	28%
	$9,150 to $12,500	33%
	$12,500	39.6%

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PO Box 249
Mitchell, SD 57301
p. 605-996-7717
f. 605-996-4091

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

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

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

Useful bits of information:

	2017	2018*
Personal exemptions	$4,050	$4,150
Standard deductions for:		
Single	$6,350	$6,500
Filing joint/qualifying widow	$12,700	$13,000
Filing separately	$6,350	$6,500
Head of household	$9,350	$9,550
Additional deduction for taxpayers 65 and over or blind:		
Single	$1,550	$1,600
Married Filing Jointly	$1,250	$1,300
Head of Household	$1,550	$1,600
Phase-out of Personal Exemptions with AGI above:		
Single	$261,500	$266,700
Married Filing Jointly or Qualifying Widow(er)	$313,800	$320,000
Married Filing Separately	$156,900	$160,000
Head of Household	$287,650	$293,550
FICA taxable wages maximum	$127,200	$128,400
Kiddie Tax on unearned income in excess of	$2,100	$2,100
Section 179 depreciation	$510,000	$520,000
Bonus depreciation on new equip.	$50%	40%
Student loan interest deduction	$2,500	$2,500
Social security earnings limit - age 62 until full retirement age	$16,920	$17,040
Adoption Credit (per eligible child)	$13,570 non-refundable	$13,840
Annual Gift Tax Exclusion	$14,000	$15,000
Lifetime Gift Exemption	$5,490,000	$5,600,000
IRA Annual Contribution Amount	$5,500	$5,500
Catch-up contribution (taxpayers 50 & over)	$1,000	$1,000

*under current law

Mileage Rates

For 2017: (beginning Jan 1, 2017)

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

For 2018: (beginning Jan 1, 2018)

Business:	54.5¢
Charitable:	18¢
Medical or moving:	14¢