

TaxTips

Keeping you informed winter 2017

Maximizing Your Deductions

Year-end strategies to save you money

As the tax year draws to a close, many of you are thinking of ways to reduce your taxable income. Generally, this is accomplished by increasing your expenses for the year. For example, making a charitable contribution by check on December 31, 2017, will create a deduction on your 2017 tax return if you are able to itemize deductions.

Another strategy is to “bunch” your deductions. Miscellaneous itemized deductions and medical expenses are limited to a percentage of your adjusted gross income. If it’s feasible to pay some of these expenses before year-end, it may be enough to push you over the limit. If you know

you will need new glasses or contact lenses, buy them before the end of the year. If you can, pay all medical and dental bills by December 31. Once, totaled, you may have enough to exceed the 10% adjusted gross income limitation.

Employees can also take advantage of the bunching strategy to exceed the 2% adjusted gross income limit on miscellaneous itemized deductions. This can be accomplished by extending subscriptions to professional journals, paying union or professional dues, and enrolling in and paying tuition for job-related education, all before the end of the year. If you have any questions, please give me a call.



Looking for a New Job?

Search expenses can be tax deductible

If you are searching for a new job that is in the same line of work you currently have, you may be able to deduct some job-hunting expenses on your federal income tax return. Expenses are deductible even if you don't get a new job.

Here are some important facts to know about deducting costs related to job searches:

- Expenses are tax deductible when the job search is in your current line of work.
- Costs associated in preparing and mailing a résumé are tax deductible.
- Travel costs to look for a new job are deductible. Expenses including transportation, meals, and lodging are deductible if the trip is mainly to look for a new job. Some costs are still deductible even if looking for a job is not the main purpose of the trip.
- Job placement or employment agency fees are deductible.
- If an employer or other party reimburses search-related expenses, like agency fees, they are not deductible.
- Job search expenses are only deductible as miscellaneous deductions on Form 1040, Schedule A. However, the total miscellaneous deductions must exceed 2% of your adjusted gross income.



You can't deduct these expenses if you are looking for a job in a new occupation, had a substantial break between the ending of your last job and looking for a new one, or are looking for a job for the first time.

Not All Income is Taxable

Have you received any of this income?

There are certain types of income that are not taxed and do not have to be reported on your tax return. These include child support, military allowances, veteran's benefits, welfare benefits, Social Security Supplemental Income benefits (SSI), and workers' compensation.

Also, a cash rebate that you received for purchases, such as a new car or appliances, is not considered taxable income.

Preparing for Your Tax Appointment

Getting organized saves valuable time

Tax time always seems to come around sooner each year, and if you're like most people, you make a vow to be better prepared for next year. Well next year is here and it's time to gather together all those tax records you've been saving. You can help your preparer by sorting through your papers and separating them between income and expenses.

Make sure you have all your W-2s if you held more than one job during the year. Employers are required to issue a W-2 to all employees by January 31. If you are self-employed, make sure you have received all your 1099-MISC forms from each person for whom you provided services and were paid \$600 or more. If you were paid less than \$600 from one or more persons, the income is still taxable even though there is nothing issued to you reporting it.

If your tax situation has not changed significantly from last year, you can use your 2016 income tax return as a guide for organizing your information. By looking over last year's return, you'll be reminded of what investments you have, if any were sold,

and which statements to bring to your tax appointment. If investments were sold during the year, the broker will issue you a Form 1099-B reporting the sale date and the sales proceeds. You'll have to provide me with the cost of the investment so I can determine the proper gain or loss.

If you have added a family member this past year, be sure to have that person's social security number on hand. A social security number, or some other taxpayer identification number, is required for all persons for whom you claim a personal exemption.

Medical Expenses

Odd things you might not consider

Have you heard of a fidget spinner? Essentially, it's a triangle-shaped toy that's designed to spin with little effort. Fidget spinners have been around for a long time, but they have gained popularity in recent years as a tool to calm children who are diagnosed with autism, attention deficit disorder (ADD), attention deficit hyperactivity disorder (ADHD), or anxiety. The premise is that that repetitive motion of the spinner redirects anxiety helping the child to relax.

Is that enough to qualify the fidget spinner as a medical expense on your tax return? That depends. In technical terms, the rules allow you to deduct expenses paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or payments for treatments affecting any structure or function of the body. What's important is that a specific diagnosis is necessary and the cure or treatment must be specifically ordered by the doctor. If your child's doctor suggests a fidget spinner might be helpful or calming, that's not enough for a deduction. However, if your child's doctor prescribes a fidget spinner in response to a specific medical condition, like autism, that should qualify as a medical expense. As an added bonus, your child's school might not ban the spinner if the doctor prescribes it.

Expenses for the care and support of man's (or woman's) best friend can also qualify as a medical deduction. Many taxpayers find great comfort in having a service or therapy dog. There are,

however, key differences between the two; they are not one and the same. Service dogs are specially trained and used to help people with physical, mental, or emotional disorders. The dogs perform specific tasks to help individuals who have a disability such as sight, hearing, or physical impairments.

To deduct service dog expenses as medical care, the dog must be used primarily to alleviate or treat the taxpayer's physical or mental illness. The Americans with Disabilities Act (ADA) requires a service dog to be specifically trained to mitigate the user's disability. Deducting the costs related to the dog should not be a problem for any dog who meets the ADA's service dog definition. Regardless of the ADA rules, if the service dog is used to treat the taxpayer's medical condition and the taxpayer has documentation supporting the claim, the costs qualify as medical care.

Therapy dogs are trained to assist in psychological or physical therapy and are not provided the same legal designation as service dogs. Again, it's up to the individual and his or her doctor to show that expenses incurred for a therapy dog are necessary for the cure, mitigation, treatment, or prevention of disease, or payments for treatments affecting any structure or function of the body. An expenditure that is merely beneficial to general health is not considered medical care.

Special foods and beverages may qualify as a deductible medical expense. According to the IRS, costs for special food and beverages qualify as a deductible medical expenses if they meet the following:

- Are prescribed by a physician for alleviation or treatment of a specific illness.
- Are consumed in addition to the taxpayer's normal diet.
- Are in no way a part of the nutritional needs of the patient, and a statement as to the particular facts and to the food or beverage prescribed is submitted by a physician.

If the special food or beverage is taken as a substitute for food or beverage normally consumed by a person and satisfies his or her nutritional requirements, the expense is personal and cannot be deducted as a medical expense.



An Age To Remember

Quick tips

Knowing key tax birthdays can help trim your annual tax bills. Below are some ages worth noting.

0	If your child is born during the year, even as late as 11:59 p.m. on December 31, you can claim a dependency exemption for your child. This comes with one catch. You need to file for the child's social security number (SSN) and include it on your tax return. If you don't, the dependency exemption is denied, along with any potential for certain tax credits. If your dependent doesn't have and can't get an SSN, you must show the individual taxpayer identification number (ITIN) or adoption taxpayer identification number (ATIN) instead of an SSN.
0-12	The good news is you gain tax advantages by contributing to your employer's flexible spending account to cover child care expenses, or you may qualify for a child care credit on your tax return. The bad news is that any investment income over \$2,100 in your child's name is taxed at your rate until the child reaches age 27.
13	Once your child reaches age 13, no matter when during the year the birthday falls, you no longer qualify to take the child care credit.
16	This is the last year your child qualifies you for the \$1,000 child tax credit.
18	If you own a business, you can pay your children to work for you and avoid paying Social Security and Medicare taxes on their wages. Once they reach age 18, you are required to withhold payroll taxes like any other employee.
27	At this age, children are taxed at their own rates on investment income. In addition, they are no longer eligible for their parents' health insurance benefits.
50	Congratulations. Not only have you reached the half century mark, you can contribute an additional \$1,000 to your IRA, bringing the total contribution limit to \$6,500.
55	You and your covered spouse are eligible to make an additional \$1,000 contribution to your HSA.
59.5	This is the magic age when you may take money from IRAs and retirement plans without incurring the additional 10% penalty for early distributions. There are exceptions to the penalties if you are younger, but this is the age when you may take penalty-free distributions for any reason.
65	Once you reach age 65, you qualify for an additional standard deduction and, if certain conditions exist, a tax credit. For tax purposes, you are considered to reach age 65 on the day before your 65th birthday.
70.5	At this age, you are required to begin distributions from your traditional IRA. If you have a Roth IRA, this rule doesn't apply. If you have a retirement plan with your employer, you are still working, and you do not own more than 5% of the company, you can delay distributions even if you reach age 70½.