

Earned Income Credit					
		0 Children	1 Child	2 Children	3+ Children
2	Earned Income Amount	\$6,610	\$9,920	\$13,930	\$13,930
0	Maximum Credit	\$506	\$3,373	\$5,572	\$6,269
1	Threshold Phase-out (Single or HOH)	\$8,270—\$14,880	\$18,190—\$39,296	\$18,190—\$44,648	\$18,190—\$47,955
6	Completed Phase-out (Married Filing Joint)	\$13,820—\$20,430	\$23,740—\$44,846	\$23,740—\$50,198	\$23,740—\$53,505
2	Earned Income Amount	\$6,670	\$10,000	\$14,040	\$14,040
0	Maximum Credit	\$510	\$3,400	\$5,616	\$6,318
1	Phase-out (Single or HOH)	\$8,340—\$15,010	\$18,340—\$39,617	\$18,340—\$45,007	\$18,340—\$48,340
7	Phase-out (Married Filing Joint)	\$13,930—\$20,600	\$23,930—\$45,207	\$23,930—\$50,597	\$23,930—\$53,930

Excessive Investment Income—For taxable years beginning in 2017, the earned income tax credit is not allowed if the aggregate amount of certain investment income exceeds \$3,450.

2017 Alternative Minimum Tax			
	Single	MFJ	MFS
Excess Taxable Income Above Which 28% Tax Rate Applies	\$187,800	\$187,800	\$93,900
Exemption Amount	\$54,300	\$84,500	\$42,250
Amounts Used to Determine Phase-out of Exemption Amount	\$120,700	\$160,900	\$80,450

2017 Eligible Long-Term Care Premiums	
Attained Age Before Close of Year	Limitation Amount
40 or less	\$410
More than 40 but not more than 50	\$770
More than 50 but not more than 60	\$1,530
More than 60 but not more than 70	\$4,090
More than 70	\$5,110

Section 179 Expense

For tax years beginning in 2017, the aggregate cost of any Section 179 property a taxpayer may elect to treat as an expense cannot exceed \$510,000. This limit is reduced (but not below zero) by the amount the cost of Section 179 property placed in service during the 2017 tax year exceeds \$2,030,000.

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2017 Education Credits

American Opportunity Tax Credit (AOTC)—This credit pertains to only the first 4 years of higher education. For both 2016 & 2017 tax years, the credit will be an amount equal to 100% of the first \$2,000 of qualified educational expenses for each student, plus 25% of the next \$2,000 of qualified educational expenses for that student, but not in excess of \$4,000. So, the maximum AOTC credit for 2017 is \$2,500. If the Credit pays your tax to zero, you can have 40% of the remaining amount of credit (up to \$1,000) refunded to you. Income restrictions do apply and for 2017, those kick in for modified adjusted gross income (MAGI) in excess of \$80,000 (\$160,000 for joint return). The credit is completely phased out with MAGI over \$90,000 (\$180,000 for joint return).

Lifetime Learning Credit—For 2017, the maximum credit is \$2,000 per tax return. The income restrictions begin with modified adjusted gross income in excess of \$55,000 (\$110,000 for a joint return). The credit is completely phased out with MAGI over \$65,000 (\$131,000 for a joint return).

NEW—Renewal of ITINs

ITINs are used by people who have tax-filing or payment obligations under U.S. law but are not eligible for a Social Security number. Under a recent change in law, any ITIN issued before January 1, 2013 or any ITIN not used on a tax return at least once in the past three years expired on January 1, 2017. In addition, any ITIN with the middle digits of either 78 or 79 (9NN-78-NNNN or 9NN-79-NNNN) also expired on January 1, 2017.

This means that anyone with an ITIN that expired on January 1st, and has a need to file a tax return, should file a renewal application Form W-7 as soon as possible. I can provide you with a copy of this form upon request if you need one.

Don't forget — Refer a friend and you both get a \$10.00 credit!



QUICK ACCOUNT SERVICES, LLC

624 N. Main, Suite 101, P.O. Box 534, Boerne, TX 78006
 Phone: 830-331-2330—Fax: 830-331-2332
 Website: www.QASspace.com — E-mail: cmeadows@QASspace.com

Taxing Topics

2016 — 2017 Edition

Letter to Clients

Well, this has already been a busy tax season. Everything crept up so fast. So, needless to say, this annual mailing is getting out a little late. With the time constraints I was under, instead of including a separate cover letter to each client, I have summarized enclosure in this article. This year I have included:

- ◆ Income Tax Tables Insert—one side shows 2016 rates, while the other side shows 2017 rates.
- ◆ 2016 Income Tax Check List—will help in the preparation of your tax return and show you what documentation to gather before completing the return. Please use this form to let me know if any of your information has changed since last year.
- ◆ 2017 Annual Calendar—transparent dates are 2017 holidays and the background painting is compliments of my husband Keith and Lonesome Meadows Art Studio (www.lonesomemeadows.com).
- ◆ Customer Referral Coupons—there is space on the back of the coupon for you to write your name and phone number and the name and phone number of your referral. Although the actual coupon is very helpful to ensure all credits are applied properly, they are not necessary to receive the credit.
- ◆ Insert regarding the new business name and new office located in Boerne.

Again, thank you for your support and for helping to make 2016 my best year since starting the business. I look forward to a continuing relationship with all of you.

Cindy

Cindy L. Meadows—Owner/Accountant

2016 E-Filing Starts
Monday
January 23, 2017

Tax Deadlines & Extensions

This year you have three extra days to get 2016 returns filed. The regular filing deadline is Tuesday, April 18, 2017 due to a holiday recognized in Washington, DC—Emancipation Day. This holiday celebrates the anniversary of president Abraham Lincoln signing the Compensated Emancipation Act on April 16, 1862. Since April 15th is on a Saturday, the tax deadline would normally be on Monday the 17th. But, the holiday of the 16th is on Sunday so it will be observed on Monday, April 17th, which pushes the tax deadline ahead. The deadline for filing extensions is October 16, 2016—giving you 1 extra day.

Partnerships and S corporations (Form 1065 & Form 1120S) must file returns by March 15, 2017 and C corporations (Form 1120) are due April 18, 2017.

NEW—Delayed Refunds

Beginning in 2017, a new law, the Protecting Americans from Tax Hikes (PATH) Act, requires the IRS to hold refunds claiming Earned Income Tax Credit (EITC) and Additional Child Tax Credit (ACTC) until February 15th. In addition, it will take several days for these refunds to be released and processed through financial institutions. Factoring in weekends and the President's Day holiday, the IRS cautions that many affected taxpayers may not have actual access to their refunds until the week of February 27th.

2016 & 2017 Key Information

I have chosen to use the same format as I did last year to present this information to you. The information is setup in tables with 2016 and 2017 figures side by side. This way, you can better see the changes from one year to the next. Although the 2016 figures are used to prepare your current return due April 18, 2017, the 2017 figures provided may help in making financial decisions in the coming year.

Itemized Deduction Limitations		
	2016	2017
Single	\$259,400	\$261,500
Head of Household	\$285,350	\$287,650
Married Filing Joint	\$311,300	\$313,800
Married Filing Separate	\$155,650	\$156,900
The limitation reduces the deduction by 3% of AGI which is over thresholds—maximum reduction of 80%. Itemized deductions for certain medical expenses, investment interest, casualty, theft, or gambling losses are exempt from phase-out.		

Personal Exemptions & Phase-Out		
	2016	2017
Base Amount	\$4,050	\$4,050
Phase-Out Begins with AGI	\$259,400 Single \$285,350 HOH \$311,300 MFJ \$155,650 MFS	\$261,500 Single \$287,650 HOH \$313,800 MFJ \$156,900 MFS
Phase-Out Complete with AGI	\$381,900 Single \$407,850 HOH \$433,800 MFJ \$216,900 MFS	\$384,000 Single \$410,150 HOH \$436,300 MFJ \$218,150 MFS
The phase out is 2% for each \$2,500 (or fraction of \$2,500) (\$1,250 for MFS) by which AGI exceeds threshold amounts.		

Standard Mileage Rates (SMR)		
	2016	2017
Business	54¢	53.5¢ ↓
Medical/Moving	19¢	17¢ ↓
Charitable	14¢	14¢
You always have the option of using actual costs rather than the SMR. If you want to use the SMR, you must use it in the first year of vehicle business use. In later years, you can choose to use either the SMR or actual expense. In addition, the business SMR cannot be used for more than four vehicles used simultaneously.		

Adoption Credit—For 2017, the credit allowed for an adoption of a child with special needs is \$13,570, and the maximum credit allowed for other adoptions is the amount of qualified adoption expenses up to \$13,570. Phase-outs do apply beginning with modified adjusted gross income (MAGI) in excess of \$203,540 and completely phased out with MAGI of \$243,540 or more.

Standard Deductions		
	2016	2017
Single & Married Filing Separate	\$6,300	\$6,350
Head of Household	\$9,300	\$9,350
Married Filing Joint	\$12,600	\$12,700
Dependent of Another Taxpayer	Greater of \$1,050 OR \$350 + earned income	Greater of \$1,050 OR \$350 + earned income
Additional Deduction for the Aged or Blind	\$1,250 Married \$1,550 Single	\$1,250 Married \$1,550 Single

Other Information		
	2016	2017
School Teacher Credit	\$250	\$250
Foreign Earned Income Exclusion	\$101,300	\$102,100
Kiddie Tax Threshold (amount child can make without paying tax)	\$1,050	\$1,050
Gift Tax Exclusion	\$14,000	\$14,000
Student Loan Interest Deduction Maximum & Phase-out Limits	\$2,500 Max \$65,000— \$80,000 Single \$130,000— \$160,000 MFJ	\$2,500 Max \$65,000— \$80,000 Single \$135,000— \$165,000 MFJ
Social Security Wage Base Limit & Maximum Amount of Tax	\$118,500 \$7,347.00 Max	\$127,200 \$7,886.40 Max

Healthcare & Form 1095-A Required
If you purchased healthcare on an Exchange and received a premium tax credit—Form 1095-A is required before you can file your return. If you do not include the information from this form in your tax return, processing will be delayed. If you do not have a copy of the form, you can call the exchange to have a new copy sent to you.

"Obamacare" Penalties			
	2014	2015	2016
Penalty for Not Buying Health Insurance	\$95 or 1% of MAGI	\$325 or 2% of MAGI	\$695 or 2.5% of MAGI
Average Penalty*	\$190	\$661	\$969
*Source: H&R Block & Kaiser Family Foundation estimates.			

Retirement Plans

The tax law places limits on the dollar amount of contributions to retirement plans and IRAs and the amount of benefits under a pension plan. IRC Section 415 requires the limits to be adjusted annually for cost-of-living adjustments (COLA). The figures for 2016 compared to 2017 are presented below:

	2016	2017
IRAs		
Contribution Limit	\$5,500	\$5,500
Catch-Up Contributions	\$1,000	\$1,000
IRA AGI Deduction Phase-Out		
Single or Head of Household (covered by workplace plan)	\$61,000- \$71,000	\$62,000- \$72,000
Joint Return (taxpayer making contribution is covered by workplace plan)	\$98,000- \$118,000	\$99,000- \$119,000
Joint Return (taxpayer making contribution is not covered by workplace plan, spouse is) - Combined income levels.	\$184,000- \$194,000	\$186,000- \$196,000
Married Filing Separate (covered by workplace plan) - Not subject to COLA.	\$0-\$10,000	\$0-\$10,000
If neither the taxpayer nor spouse is covered by workplace plan, phase-outs of deduction do not apply.		
SIMPLE Plans		
Maximum Contributions	\$12,500	\$12,500
Catch-Up Contributions	\$3,000	\$3,000

Distributions

You must start taking minimum distributions from your IRA, SIMPLE or SEP IRA or retirement plan account when you reach age 70-1/2. Roth IRAs do not require withdrawals until after the death of the owner.

REMINDER: The tax consequences of withdrawing funds from your retirement accounts can be devastating. Even if taxes are withheld from the distribution (i.e. 20%), that doesn't mean your taxes are paid in full. There is a 10% penalty for early withdrawal, plus the tax on your adjusted gross income for the year. Your adjusted gross income will be increased by the amount of the distribution from the plan. If you withdraw a large amount, you may even be pushed into a higher tax bracket. Also, 1099-R income must be reported to the IRS on you Form 1040.

Retirement Savings Contributions Credit—AGI Limit for . . .						
	50% Credit		20% Credit		10% Credit	
	2016	2017	2016	2017	2016	2017
Single & Married Filing Separate	\$18,500	\$18,500	\$20,000	\$20,000	\$30,750	\$31,000
Head of Household	\$27,750	\$27,750	\$30,000	\$30,000	\$46,125	\$46,500
Married Filing Joint	\$37,000	\$37,000	\$40,000	\$40,000	\$61,500	\$62,000

	2016	2017
Roth IRA		
Income Phase-Out Range		
Single & Head of Household	\$117,000- \$132,000	\$118,000- \$133,000
Married Filing Joint	\$184,000- \$194,000	\$186,000- \$196,000
Married Filing Separate (not subject to COLA)	\$0-\$10,000	\$0-\$10,000
Low number of range is also the AGI limitation for determining the maximum Roth Contribution .		
SEP		
Minimum Compensation	\$600	\$600
Maximum Contribution	\$53,000	\$54,000
Maximum Compensation	\$265,000	\$270,000
401(k), 403(b), Profit-Sharing Plans, etc.		
Annual Compensation	\$265,000	\$270,000
Elective Deferrals	\$18,000	\$18,000
Catch-Up Contributions	\$6,000	\$6,000
Defined Contributions Limits	\$53,000	\$54,000

Designated Roth vs Roth IRA

Designated Roth—is a separate account in a 401(k), 403(b) or governmental 457(b) plan that holds designated Roth contributions. Designated Roth contributions are elective deferrals that the participant elects to include in gross income. The plan must keep separate accounting records for all contributions, gains and losses in the designated Roth account.

Roth IRA—is an IRA that, except as explained below, is subject to rules that apply to a traditional IRA.

- ◆ You cannot deduct contributions to a Roth IRA.
- ◆ If you satisfy the requirements, qualified distributions are tax-free.
- ◆ You can make contributions to your Roth IRA after you reach age 70-1/2.
- ◆ You can leave funds in a Roth IRA as long as you live.