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DECEMBER 2016

NO 5-PEAT!

(A TALE OF WOE)

As regular readers might recall, we are devoted to destroying the image of accountants as pocket-protector equipped, green-eye-shade wearing nerds. In that effort, we have previously mentioned (bragged?) in this newsletter about the championships of our golf team for the past four years in the Shreveport Chapter of the Society of CPAs Scholarship Golf Tournament. In 2015, our team of Robert Busby, Matt Hahn, Kyle Dobbins, and Adam Cain placed first in the scramble with a score of 13 under par (in the rain) resulting in their fourth consecutive CPA championship covering 2012 through 2015. In 2016, alas, without our concurrence, the local CPA Society Chapter changed the annual scholarship event from a golf tournament (a matter of skill) to a casino night (luck), which our participants, we must report, in all fairness, did not win. We have suggested that our golf team cease moping and turn their attention to preparation for the coming filing season.

UNCERTAINTY AND COMPLEXITY

Almost all people, and certainly tax planners, when facing significant decisions abhor uncertainty. We all plan better and make better decisions when we know the applicable rules before the decision is required. We also find life made more difficult by complexity, especially complexity where simplicity could be achieved. Few human endeavors have produced results more deserving of condemnation for lack of certainty and unnecessary complication than the Internal Revenue Code. It was last overhauled (and made a little simpler) in 1986 under the Reagan Administration. Since that time there have been numerous phase-outs, phase-ins, add-on taxes (e.g., the net investment income tax), and repeated increases in the basic personal and corporate rates, additional reporting requirements, increased and new revenue raising penalties, shortened due dates, etc. Now, for the first time in the intervening 30 years, there appears to be a reasonable chance that significant tax reform might well occur soon – possibly in 2017 or 2018. Congressional leadership has announced reform proposals. The incoming Administration campaigned for comprehensive tax reform and has indicated that tax reform is one of its top economic priorities. It has suggested individual rates of 12 percent, 25 percent, and 33 percent, the elimination of the alternative minimum tax and the death tax, and, as part of the ObamaCare repeal, the elimination of the 0.9 percent and 3.8 percent Medicare surtaxes on upper-income taxpayers.

The details of the new Administration's reform are uncertain as is the effective date.

(Continued on reverse)

However, it does seem reasonable to conclude that 2017 rates might be lower and the rules might be different. Accordingly, the acceleration, where possible, of deductions into 2016 and the deferral of income to 2017 should probably be considered by most taxpayers with relatively stable tax status and events. Some ideas for deferral and acceleration are included in our November 2016 Newsletter, which is available at our website: www.cepcpa.com.

As always, we will be happy to discuss your planning and questions with you.

REMINDER – JANUARY 31ST DUE DATE

Businesses and household employers should remember that Forms 1099-Misc and W-2 must be filed with the Internal Revenue Service by January 31st to prevent penalties.

TIME TO COMPUTE PERSONAL-USE VALUE OF AN EMPLOYER-PROVIDED VEHICLE

Early January 2017 is the time to compute the 2016 personal-use value of employer-provided vehicles that must be reported on the employees' 2016 Forms W-2, and on which FICA and possibly federal income tax must be withheld and paid. Included with this newsletter is a form that you may use to compute the personal-use value of an employer-provided vehicle.

The form includes information on its reverse concerning additional details about the form.

WILL THE OVERTIME EXEMPTION CHANGE ?

Employers subject to the U. S. Department of Labor Fair Labor Standards Act are subject to a final overtime rule issued last May. This new rule revamps the white collar exemption to the law for executive, administrative, professional, and highly compensated employees. It increases the number of employees subject to overtime premium pay by raising the minimum salary for exemption to $913 per week or $47,476 per year – more than twice the old salary threshold of $455 per week or $23,660 per year. The new rule was originally scheduled to be effective December 1, 2016. However, a federal judge in the U.S. District Court for the Eastern District of Texas issued an injunction delaying its implementation. In the absence of action by the incoming Administration, the new rule will take effect if and when the injunction is lifted by the appropriate federal court. The old rules will continue, at least temporarily, to apply.

SOCIAL SECURITY WAGE BASE INCREASES FOR 2017

The Social Security Administration (SSA) announced that the maximum earnings subject to the social security component of the FICA tax will increase from $118,500 to $127,200 for 2017. That is, the maximum social security tax that employers and employees will each pay is $7,886.40, and a self-employed person with at least $127,200 in net self-employment earnings will pay $15,772.80 for the social security part of the self-employment tax. The unlimited Medicare tax remains at 1.45 percent of all employee earnings (2.9 percent of all self-employment income). Individuals with earned income of more than $200,000 ($250,000 for married couples filing jointly) will continue to pay an additional 0.9 percent in Medicare taxes.

COMPUTATION OF PERSONAL-USE VALUE OF EMPLOYER-PROVIDED VEHICLES—2016

Name of Employer ______________________ Name of Employee ______________________

Does the employer restrict personal-use to commuting only? ☐ Yes ☐ No If Yes, complete CEP157-B to determine if "Commuting Rule" applies.

VEHICLE INFORMATION

1. Description (make, model, and year)______________________
2. Valuation Date (The initial valuation date is the date placed in service. Subsequent valuation dates are based on a hypothetical lease for four full calendar years. For example, if a vehicle is first placed in service January 12, 2015, the second valuation date is January 1, 2020. The third valuation date would be January 1, 2024.)______________________
3. Fair market value on valuation date indicated at item 2 above______________________

EMPLOYEE CERTIFICATION

4. Total number of miles driven during 2016 ____________ Miles
5. Total commuting miles during 2016 ____________ Miles
6. Total other personal (noncommuting) miles during 2016 ____________ Miles
7. Total personal miles (sum of line 5 and line 6) ____________ Miles
8. Is another vehicle (other than an employer vehicle) available for personal use? ☐ Yes ☐ No

The above information is supported by adequate evidence and is correct to my best knowledge and belief. I understand this information will be used to compute the value of the personal use of this employer-provided vehicle, which will be reported on my W-2 for 2016.

Signed______________________ Date______________________
(Employee)

COMPUTATION OF PERSONAL-USE VALUE

9. Personal-use percentage (divide line 7 by line 4) ____________%
10. Annual lease value (determine from table below based on fair market value at line 3 above) (prorate annual lease value based on number of days used if less than full year) **$**____________
11. Personal-use annual lease value (multiply line 9 and line 10) **$**____________
12. Gasoline provided by employer:
    a. Actual gasoline cost **$**____________
    b. Personal portion actual cost [multiply line 9 and line 12(a)] **$**____________
    c. 5.5¢ times personal miles (line 7) **$**____________
    d. Personal-use gasoline [lesser of line 12(b) or line 12(c)] **$**____________
13. Gross personal-use [sum of line 11 and line 12(d)] **$**____________
14. Reimbursements made by employee **$**____________
15. Net personal-use value to report on Form W-2 (line 13 minus line 14) **$**____________

ALTERNATIVE METHOD OF COMPUTATION (Use this section *only if* vehicle meets requirements described below.)

This method is available if the fair market value at line 3 is $16,000 or less for automobiles and $17,500 or less for trucks and vans. Also, the employee must have regularly used the vehicle in the Company's trade or business, or the employee must have driven at least 10,000 total miles during the year (10,000 miles is prorated if vehicle available less than full year). Once this alternative method is chosen for an employee and vehicle, it must be used in all subsequent years until it fails to meet the criteria above.

1. Gross Personal-Use Value:
   (Personal Miles x 54¢ = ____________) $____________
2. Employee Reimbursement to Employer (____________)
3. Net Personal-Use Value to Report on Form W-2 (1 minus 2) $____________

ANNUAL LEASE VALUE TABLE

(1) Automobile FairMarket Value	(2) Annual Lease	(1) Automobile FairMarket Value	(2) Annual Lease Value	(1) Automobile FairMarket Value	(2) Annual Lease Value
$0- 999 ------	$ 600	$12,000- 12,999 ------	$ 3,600	$24,000- 24,999 ------	$ 6,600
1,000- 1,999 ------	850	13,000- 13,999 ------	3,850	25,000- 25,999 ------	6,850
2,000- 2,999 ------	1,100	14,000- 14,999 ------	4,100	26,000- 27,999 ------	7,250
3,000- 3,999 ------	1,350	15,000- 15,999 ------	4,350	28,000- 29,999 ------	7,750
4,000- 4,999 ------	1,600	16,000- 16,999 ------	4,600	30,000- 31,999 ------	8,250
5,000- 5,999 ------	1,850	17,000- 17,999 ------	4,850	32,000- 33,999 ------	8,750
6,000- 6,999 ------	2,100	18,000- 18,999 ------	5,100	34,000- 35,999 ------	9,250
7,000- 7,999 ------	2,350	19,000- 19,999 ------	5,350	36,000- 37,999 ------	9,750
8,000- 8,999 ------	2,600	20,000- 20,999 ------	5,600	38,000- 39,999 ------	10,250
9,000- 9,999 ------	2,850	21,000- 21,999 ------	5,850	40,000- 41,999 ------	10,750
10,000- 10,999 ------	3,100	22,000- 22,999 ------	6,100	42,000- 43,999 ------	11,250
11,000- 11,999 ------	3,350	23,000- 23,999 ------	6,350	44,000- 45,999 ------	11,750
				46,000- 47,999 ------	12,250
				48,000- 49,999 ------	12,750
				50,000- 51,999 ------	13,250
				52,000- 53,999 ------	13,750
				54,000- 55,999 ------	14,250
				56,000- 57,999 ------	14,750
				58,000- 59,999 ------	15,250

For vehicles having a fair market value in excess of $59,999, the annual lease value is equal to: (.25 x the fair market value of the automobile) + $500.

Auto Usage Form Contains Required Information

Employers must obtain the auto use information and certification from each employee to whom an auto is furnished in time to complete the fourth quarter payroll tax returns and the 2016 Forms W-2. Completion of the auto usage form on the reverse of this page will enable an employer to compile the information required for the income tax returns, payroll tax returns, and Forms W-2. Much of the information on the auto use form must also be included in the employer's federal income tax return. Accordingly, employers should retain the completed vehicle use forms as written evidence supporting the information in the income tax return.

If you provide vehicles to employees, you must withhold federal income tax on the personal-use value of the vehicles unless you elected not to withhold income tax by giving employees timely notice. If income tax is to be withheld, you can withhold a flat 25 percent or withhold as if the personal-use value is part of regular wages. If you did not compute or estimate the personal-use value and withhold taxes during 2016, the income tax and FICA (Social Security and Medicare tax) may be withheld from 2017 wages at any time between January 1 and April 1, 2017.

Regardless of when the taxes are withheld, however, the 2016 personal-use value is considered 2016 compensation, and the withholdings must be reported on the fourth quarter 2016 Form 941 and paid or deposited accordingly. Both the compensation and the withholdings must be included on the 2016 Form W-2.

An employer may elect not to withhold income taxes for 2017 on the personal-use value of a vehicle by notifying the employees in writing by January 31, 2017, or within 30 days after the employee is provided a vehicle, if later.

We will be glad to assist you with the completion of the auto usage form or answer your questions about its preparation.

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Tax & Business Alert

DECEMBER 2016

DON'T LET CAPITAL LOSSES GET YOU DOWN

No one wishes to lose money on an investment. But, if it happens to you, don't let it get you down. You may be able to lower your tax bill to cheer yourself up.

THE BRIGHT SIDE

A capital loss occurs when you sell a security for less than your "basis," generally the original purchase price. The upside is that you can use capital losses to offset capital gains you realize in that same tax year.

When your capital losses exceed your capital gains, you can use up to $3,000 of the excess to offset wages, interest and other ordinary income ($1,500 for married people filing separately). Then you can carry the remainder forward to future years until it's used up.

WASH SALE RULE

Years ago, investors realized they could sell a security to recognize a capital loss for a given tax year and then — if they still liked the security's prospects — buy it back immediately. To counter this strategy, Congress imposed the wash sale rule, which disallows losses in situations where an investor sells a security and then buys the same or a "substantially identical" security within 30 days of the sale, before or after.

Waiting 30 days to repurchase a security sold at a loss is one way to achieve your goals without running afoul of the wash sale rule. But there may be times when you'd rather not be forced to sit on the sidelines for a month. Instead, you might consider doubling up on a position in which you have a loss and then waiting 31 days to sell the original stake — a strategy that

MUTUAL FUND MATTERS

In some cases, rather than invest in a single security, you may wish to identify a mutual fund or exchange-traded fund with a similar investment sector, strategy and size. If you're buying mutual funds, however, it pays to know when the next capital gains distribution will occur and how large it will be. If the distribution is sufficiently large and the date is imminent (they often occur in December), you might want to delay your purchase to avoid incurring a sizable tax liability.

also avoids a wash sale violation because the purchase occurs more than 30 days before the sale.

STRATEGIC RESEARCH

If you don't want to sit on the sidelines or double up on a position, there's often an alternative. With a little research, you might be able to identify a security you like just as well as, or better than, the old one. Say you own stock in a networking equipment company that has lost value since you bought it. After researching the industry, you discover that the company's chief competitor is more attractively valued and has better growth prospects.

Your solution is now simple and straightforward: Simultaneously sell the stock you own at a loss and buy the competitor's stock, thereby avoiding violation of the "same or substantially identical" provision of the wash sale rule. In the process, you've added to your portfolio a stock you believe has more potential or less risk.

SEEK PROFESSIONAL ADVICE

If you incur a capital loss, please contact us. We can discuss your options to use it to reduce your taxes and reposition your portfolio. ■

IRS CONTINUES TO ENFORCE "REASONABLE" SHAREHOLDER-EMPLOYEE SALARIES

If you're a shareholder-employee of an S corporation, you more than likely considered the tax advantages of this entity choice. But those very same tax advantages also tend to draw IRS scrutiny. And the agency has made clear that its interest in S corporations — including possible audits — will continue.

WHAT'S THE PROBLEM?

The IRS pays particular attention to S corporations because, as you well know, shareholder-employees of these organizations aren't subject to self-employment taxes on their respective shares of the company's income. This differs from, say, general partners in a partnership.

To better manage payroll taxes, many S corporations minimize shareholder-employee salaries (which are subject to payroll taxes) and compensate them mostly via "dividend" distributions. If this holds true for you, the IRS may take a close look at your salary to determine whether it's "unreasonably" low. The agency views overly minimized salaries as an improper means of avoiding payroll taxes.

If its case is strong enough, the IRS could recharacterize a portion of distributions paid to you and other shareholder-employees as wages and bill the employer and/or employee for unpaid taxes, interest and possibly even penalties.

HOW DO YOU DEFINE IT?

By following certain guidelines, your business can ensure salaries paid to you and other shareholder-employees have a higher likelihood of meeting the agency's typical standards of reasonableness.

For starters, do some benchmarking to learn how S corporations of similar size (as indicated by capital value, net income or sales) in your industry and geographic region are paying their shareholder-employees. In addition, pay close attention to certain traits held by your shareholder-employees. These include:

- Background and experience,
- Specific responsibilities,
- Work hours,
- Professional reputation, and
- Customer relationships.

The stronger these traits are, the higher the salary should be in the eyes of the IRS. Shareholder-employee salaries should be fairly consistent from year to year, too, without dramatic raises or cuts.

WHO CAN HELP?

As your S corporation battles with its competitors and strives to meet its strategic goals, you may not be thinking all that much about the form of your compensation. But, rest assured, the IRS is paying attention. We can examine the reasonableness of the salaries that you and other shareholder-employees are receiving and help minimize the chances of an examination or audit. ■

AGE 50 OR OLDER? CATCH-UP CONTRIBUTIONS ARE FOR YOU

Are you in your 50s or 60s and thinking more about retirement? If so, and you're still not completely comfortable with the size of your nest egg, don't forget about "catch-up" contributions. These are additional amounts beyond the regular annual limits that workers age 50 or older can contribute to certain retirement accounts.

Catch-up contributions give you the chance to take maximum advantage of the potential for tax-deferred or, in the case of Roth accounts, tax-free growth.

401(K) FEATURE

Under 2016 401(k) limits, if you're age 50 or older, after you've reached the $18,000 maximum limit for all employees, you can contribute an extra $6,000, for a total of $24,000. If your employer offers a Savings Incentive Match Plan for Employees (SIMPLE) instead, your regular contribution maxes out at $12,500 in 2016. If you're 50 or older, you're allowed to contribute an additional $3,000 — or $15,500 in total for the year.

But, check with your employer because, while most 401(k) plans and SIMPLEs offer catch-up contributions, not all do.

IRA BENEFITS

Another way to save more after age 50 is through a traditional IRA or a Roth IRA. With either plan, those 50 or older generally can contribute another $1,000 above the $5,500 limit for 2016. Plus, you can make 2016 IRA contributions as late as April 18, 2017.

The benefits of making the additional contribution differ depending on which account you're considering. With a traditional IRA, contributions may be tax deductible, providing you with immediate tax savings. (The deductibility phases out at higher income levels if you or your spouse is covered by an employer retirement plan.)

Roth contributions are made with after-tax dollars, but qualified withdrawals are tax-free. By contributing to a Roth IRA and taking the tax hit up front, you won't lose any of the income to taxes at withdrawal, provided you're at least 59½ and have held a Roth IRA at least five years. However, be aware that the ability to contribute to a Roth IRA is phased out based on income level.

Another option if you'd like to enjoy tax-free withdrawals is to convert some or all of your traditional IRA to a Roth IRA — but you'll also take an up-front tax hit.

SELF-EMPLOYED LIMITS

If you're self-employed, retirement plans such as an individual 401(k) — or solo 401(k) — also allow catch-up contributions. A solo 401(k) is a plan for those with no other employees. You can defer 100% of your self-employment income or compensation, up to the regular yearly deferral limit of $18,000, plus a $6,000 catch-up contribution in 2016. But that's just the employee salary deferral portion of the contribution.

You can also make an "employer" contribution of up to 20% of self-employment income or 25% of compensation. The total combined employee-employer contribution is limited to $53,000, plus the $6,000 catch-up contribution.

SQUIRREL AWAY

The year's almost over, but you still have time to squirrel away a few extra dollars. ■

7 LAST-MINUTE TAX-SAVING TIPS

Where did the time go? The year is quickly drawing to a close, but there's still time to take steps to reduce your 2016 tax liability. Here are seven last-minute tax-saving tips to consider — you just must act by December 31:

1. Pay your 2016 property tax bill that's due in early 2017.
2. Pay your fourth quarter state income tax estimated payment that's due in January 2017.
3. Incur deductible medical expenses (if your deductible medical expenses for the year already exceed the applicable floor).
4. Pay tuition for academic periods that will begin in January, February or March of 2017 (if it will make you eligible for a tax deduction or credit).
5. Donate to your favorite charities.
6. Sell investments at a loss to offset capital gains you've recognized this year.
7. Ask your employer if your bonus can be deferred until January.

Keep in mind, however, that in certain situations these strategies might not make sense. For example, if you'll be subject to the alternative minimum tax this year or be in a higher tax bracket next year, taking some of these steps could have undesirable results.

To make absolutely sure which of these tips are right for you, and learn whether there are other beneficial last-minute moves you might make, please contact our firm. We can help you maximize your tax savings for 2016. ■