WILLIAM JEFFERSON COLE, C.P.A.
C. WILLIAM GERARDY, JR., C.P.A.
BARRY S. SHIPP, C.P.A.
STEVEN W. HEDGEPETH, C.P.A.
STEVEN R. BAYER, C.P.A.
TIMOTHY R. DURR, C.P.A.
BAILEY B. BAYNHAM, C.P.A.
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ANNE-MARIE COLE, C.P.A.
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ERIC D. SMITH, C.P.A.
KYLE S. DOBBINS, C.P.A.
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FAYE D. BARFIELD, C.P.A.
KATHRYN THAXTON GRAY, C.P.A.

JOHN A. CASKEY, C.P.A.
J. AMY HEMMINGS, C.P.A.
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JANA JOHNSTON COX, C.P.A.
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R. SCOTT MOORE, C.P.A.
STEPHANIE CARROLL RELF, C.P.A.
ADAM JEFFERSON CAIN, C.P.A.
MADISON PAIGE CORRELL, C.P.A.

COLE, EVANS & PETERSON
CERTIFIED PUBLIC ACCOUNTANTS

FIFTH FLOOR TRAVIS PLACE
624 TRAVIS STREET
SHREVEPORT, LOUISIANA 71101-3012

www.cepcpa.com

PARTNER EMERITUS
M. ALTON EVANS, JR.

OF COUNSEL
CAROL T. BARNES, C.P.A.
AUSTIN G. ROBERTSON, JR., C.P.A.

TELEPHONE (318) 222-8367
TELECOPIER (318) 425-4101

MAILING ADDRESS:
POST OFFICE DRAWER 1768
SHREVEPORT, LOUISIANA 71166-1768

JANUARY 2017

HAPPY NEW "TAX" YEAR

As taxpayers arrive in the new year, they seem justified in anticipating some decrease in their federal tax burden. Incoming Administration and Congressional leaders have stated that income tax rates will decrease for 2017 and that the death tax will be repealed. It seems reasonable to anticipate a reduction in both personal and corporate income tax rates while remembering that the incoming Administration has also indicated some tightening of deduction limitations without specifying any details.

The above is only expectation. Following this article (page 3), however, we are able to list some known 2017 changes.

The current law raises 2017 self-employment and employment tax bases significantly. For 2017, the base for Social Security taxes will increase by 7.3 percent from \$118,500 to \$127,200. For example, a self-employed person earning \$140,000 in both 2016 and 2017 will incur a self-employment tax for 2017 of \$19,522 compared with a 2016 self-employment tax on the same earnings of \$18,443. This taxpayer will also pay (under current law) federal income tax of about \$18,800 – if married with no dependents – for a total federal tax of about \$38,300, and Louisiana income tax of about \$4,000 for a total of about \$42,300 or 30 percent of the taxpayer's gross income.

The standard mileage deductible rate for business use of an auto went down from 54 cents to 53½ cents per mile. The 401(k) retirement plan maximum elective deferral amounts remained unchanged at \$18,000 for those below age 50 and \$24,000 for age 50 or above. Individual retirement account maximum contributions were unchanged at \$5,500 for taxpayers below age 50 and \$6,500 for those ages 50 and above.

In summary, limitations other than the increase in the base for employment and self-employment taxes had relatively insignificant changes or were unchanged.

NEW, EARLIER DUE DATES
2016 INFORMATION TO INTERNAL REVENUE SERVICE

The Internal Revenue Service requirements for information reporting of payments continue to increase in complexity and penalty potential. The due date (January 31) for filing two of the most common information returns, Forms W-2 for wages paid and Forms 1099-MISC for non-employee compensation, has been shortened by one month (shortened by two months for electronic filing). All businesses and households filing Forms W-2 and Forms 1099-MISC for non-employee compensation will want to gather the necessary information as early as possible following December 31, 2016 to allow adequate time for filing.

Businesses are required to report on Form 1099 payments to all recipients of \$10 or more of interest, dividends, and royalties. Payments to unincorporated payees of $600 or more of rents, fees, commissions, and prizes must also be reported. The exemption from reporting payments to corporations, however, does not apply to payments for legal services. All attorneys' fees of $600 or more paid in the course of a trade or business are reportable in box 7 of Form 1099-MISC. In addition, if a payment is made to an attorney in connection with legal services and the attorney's fee cannot be determined, the total amount paid (gross proceeds) must be reported in box 14. Retirement plans are required to report all payments to beneficiaries, generally on Form 1099-R.

Information returns for 2016 must be furnished to the recipients by January 31, 2017 and, for Forms W-2 and Forms 1099 reporting compensation, filed with the Internal Revenue Service by January 31, 2017 and by February 28, 2017 (March 31, 2017 for electronic filing) for other information returns.

Electronic/Magnetic Media Reporting--Generally, a taxpayer who is required to file 250 or more information returns (1099, 1098, W-2, etc.) must submit the information to the IRS electronically or on magnetic media. The Louisiana Department of Revenue also requires that employers who have 250 or more employees file the state copy of Form W-2 on magnetic media. If a taxpayer fails to file returns on magnetic media when required to do so, the "failure to file" penalties apply to the number of returns in excess of 250.

TOTAL FINANCIAL COMPENSATION

We believe that the survival of most businesses depends on finding and keeping good people. Many factors other than financial compensation significantly influence employee retention – that is, people want to work in a pleasant environment, feel appreciated, and feel a part of something significant, of helping others, etc. Nonetheless, most of us do want to feel that we are being dealt with fairly in all aspects of our work including financial compensation. When considering financial compensation, some employees fail to give their employers credit for the total compensation that they receive – thinking, instead, only of the cash salary or even only of their "take-home pay." You might want to encourage all employees to understand their total compensation by furnishing to them a schedule of total compensation along with their 2016 Form W-2 due by January 31, 2017. We have provided a form on page 4 below that can be adapted for this purpose. This form can also be helpful in compensation reviews to project an employee's total annual compensation package.

Another way to encourage your employees to understand their total compensation is to utilize a "cafeteria plan." With a cafeteria plan, employees can have a flexible spending account and can elect to have part of their cash compensation redirected to this benefit plan. The cafeteria plan is attractive to both the employee and the employer. The employee's disposable income increases because the amounts directed into the plan for tax-free fringe benefits are not subject to social security and Medicare taxes or to income taxes. The employer saves any otherwise applicable payroll taxes on the amounts that the employee redirects to tax-free benefits.

Flexible spending account cafeteria plans do have administrative costs that can exceed the employer payroll tax savings and, therefore, might not be cost effective. We suggest that an analysis of the cost effectiveness (tax savings versus administrative costs) be made before the implementation of any such plan. We will be glad to help you with such an analysis or with any other aspects of your compensation planning.

2017 LIMITATION CHANGES

Many tax or regulatory limitations change on a calendar year basis. Here is a summary of some of the major 2017 limitations with 2016 for comparison.

		2017	2016
Current Earnings Allowed Before Social Security Benefits Reduction:			
Worker Below Full Retirement Age		$ 16,920	$ 15,720
Worker Full Retirement Age and Above	- No Change -	Unlimited	Unlimited
(Full Retirement Age 66 for Those Born in 1943 through 1954)			
Social Security Taxes:			
Old Age, Survivors, and Disability Insurance Income Portion of Tax:			
Maximum Base for Tax		$ 127,200	$ 118,500
Tax Rate (Employee and Employer)	- No Change -	6.20%	6.20%
Tax Rate (Self-employed)	- No Change -	12.40%	12.40%
Maximum Tax (Employee)		$ 7,886	$ 7,347
Maximum Tax (Self-employed)		$ 15,773	$ 14,694
Medicare Portion of the Tax:			
Tax Rate (Employee and Employer)	- No Change -	1.45%	1.45%
Tax Rate (Self Employed)	- No Change -	2.90%	2.90%
Tax Rate (Employee and Self Employed) – Earnings in Excess of $200,000 ($250,000 Joint Return)		0.9%	0.9%
Maximum Base and Maximum Tax	- No Change -	Unlimited	Unlimited
Louisiana Unemployment Tax:			
Maximum Base for Tax	- No Change -	$ 7,700	$ 7,700
Auto Standard Mileage Deduction:			
Business Use		53.5¢	54¢
Use for a Charitable Organization	- No Change -	14¢	14¢
Use for Medical or Moving		17¢	19¢
401(k) Maximum Elective Deferral:			
Below Age 50	- No Change -	$ 18,000	$ 18,000
Age 50 or Above	- No Change -	$ 24,000	$ 24,000
Maximum Contribution to Defined Contribution Retirement Plan:			
General Limit – All Plans		$ 54,000	$ 53,000
With 401(k) Feature (Age 50 and over)		$ 60,000	$ 59,000
Individual Retirement Account Contribution (IRAs):			
Below Age 50	- No Change -	$ 5,500	$ 5,500
Age 50 or Above	- No Change -	$ 6,500	$ 6,500
SIMPLE IRA Maximum Deferral:			
Below Age 50	- No Change -	$ 12,500	$ 12,500
Age 50 or Above	- No Change -	$ 15,500	$ 15,500
Maximum Sec. 179 Deduction of Certain Depreciable Property	- No Change -	$ 500,000	$ 500,000
Annual Gift Tax Exclusion Per Donee	- No Change -	$ 14,000	$ 14,000

Summary of Compensation Earned
Year ______________

Employee____

	Compensation Earned
Cash Compensation	$______________
Contributions to Retirement Plans	______________
Long-Term Disability Insurance Premiums	______________
Health Insurance Premiums	______________
Life Insurance Premiums	______________
Social Security and Medicare Taxes Paid for You (Company Portion – Not Withheld)	______________
Other ____________________________________	______________
Total Compensation for the Year	$______________

Cole, Evans & Peterson, CPAs
www.cepcpa.com

624 Travis Street Shreveport, Louisiana 71101 (318) 222-8367

Tax & Business Alert

JANUARY 2017

DAFs BRING AN INVESTMENT ANGLE TO CHARITABLE GIVING

If you're planning to make significant charitable donations in the coming year, consider a donor-advised fund (DAF). These accounts allow you to take a charitable income tax deduction immediately, while deferring decisions about how much to give — and to whom — until the time is right.

ACCOUNT ATTRIBUTES

A DAF is a tax-advantaged investment account administered by a not-for-profit "sponsoring organization," such as a community foundation or the charitable arm of a financial services firm. Contributions are treated as gifts to a Section 501(c)(3) public charity, which are deductible up to 50% of adjusted gross income (AGI) for cash contributions and up to 30% of AGI for contributions of appreciated property (such as stock). Unused deductions may be carried forward for up to five years, and funds grow tax-free until distributed.

Although contributions are irrevocable, you're allowed to give the account a name and recommend how the funds will be invested (among the options offered by the DAF) and distributed to charities over time. You can even name a successor advisor, or prepare written instructions, to recommend investments and charitable gifts after your death.

Technically, a DAF isn't bound to follow your recommendations. But in practice, DAFs almost always respect donors' wishes. Generally, the only time a fund will refuse a donor's request is if the intended recipient isn't a qualified charity.

KEY BENEFITS

As mentioned, DAF owners can immediately deduct contributions but make gifts to charities later. Consider this scenario: Rhonda typically earns around $150,000 in AGI each year. In 2017, however, she sells her business, lifting her income to $5 million for the year.

Rhonda decides to donate $500,000 to charity, but she wants to take some time to investigate charities and spend her charitable dollars wisely. By placing $500,000 in a DAF this year, she can deduct the full amount immediately and decide how to distribute the funds in the coming years. If she waits until next year to make charitable donations, her deduction will be limited to $75,000 per year (50% of her AGI).

Even if you have a particular charity in mind, spreading your donations over several years can be a good strategy. It gives you time to evaluate whether the charity is using the funds responsibly before you make additional gifts. A DAF allows you to adopt this strategy without losing the ability to deduct the full amount in the year when it will do you the most good.

Another key advantage is capital gains avoidance. An effective charitable-giving strategy is to donate appreciated assets — such as securities or real estate. You're entitled to deduct the property's fair market value, and you can avoid the capital gains taxes you would have owed had you sold the property.

But not all charities are equipped to accept and manage this type of donation. Many DAFs, however, have the resources to accept contributions of appreciated assets, liquidate them and then reinvest the proceeds.

REQUIREMENTS AND FEES

A DAF can also help you streamline your estate plan and donate to a charity anonymously. Requirements and fees vary from fund to fund, however. Please contact our firm for help finding one that meets your needs. ■

SLIGHT ADJUSTMENTS: COLA AMOUNTS FOR 2017 RETIREMENT PLANS

The IRS recently issued cost-of-living adjustments (or "COLAs") for 2017. If, like most people, you're funding a retirement plan, it's a good idea to take a look at what's changed and what hasn't.

Elective deferrals to 401(k), 403(b), 457(b)(2) and 457(c)(1) plans will remain the same at $18,000. Likewise, contributions to SIMPLEs stay unchanged at $12,500, and contributions to IRAs remain static at $5,500. Catch-up contributions stay the same, as well — $6,000 for 401(k), 403(b), 457(b)(2) and 457(c)(1) plans; $3,000 for SIMPLEs; and $1,000 for IRAs.

What has changed? The annual benefit for defined benefit plans rises from $210,000 to $215,000. Meanwhile, contributions to defined contribution plans go from $53,000 to $54,000.

Please note: Your modified adjusted gross income (MAGI) may reduce or even eliminate your ability to take advantage of IRAs. Fortunately, IRA-related MAGI phaseout range limits all will increase for 2017. Please contact our firm for these specific amounts.

We can also help you better understand other important COLA amounts — including those related to ordinary-income tax brackets, the alternative minimum tax, education- and child-related breaks, and gift and estate taxes. ■

NEED TO SELL REAL PROPERTY? TRY AN INSTALLMENT SALE

If your company owns real property, or you do so individually, you may not always be able to dispose of it as quickly as you'd like. One avenue for perhaps finding a buyer a little sooner is an installment sale.

BENEFITS AND RISKS

An installment sale occurs when you transfer property in exchange for a promissory note and receive at least one payment after the tax year of the sale. Doing so allows you to receive interest on the full amount of the promissory note, often at a higher rate than you could earn from other investments, while deferring taxes and improving cash flow.

But there may be some disadvantages for sellers. For instance, the buyer may not make all payments and you may have to deal with foreclosure.

METHODOLOGY

You generally must report an installment sale on your tax return under the "installment method." Each installment payment typically consists of interest income, return of your adjusted basis in the property and gain on the sale. For every taxable year in which

Continued on Page 4.

REVIEWING YOUR COMPANY'S INVENTORY OPTIONS FOR BEST RESULTS

Robust cash flow is a must for virtually every kind of business. Yet an improperly or inadequately managed inventory system can drag down your revenues. It's a good idea to regularly review your approach to inventory accounting.

RECONSIDER YOUR APPROACH

Generally, there are two primary inventory accounting methods for both tax accounting and financial accounting. They are:

1. Last in, first out (LIFO). If you tend to retain inventory items (such as repair parts or durable goods) for long periods, LIFO may be your best choice. It allows you to allocate the most recent (and, therefore, higher) costs first, ideally maximizing your cost of goods sold and minimizing your taxable income.

2. First in, first out (FIFO). This refers to selling the oldest stock first. Generally, FIFO works best with dated goods, perishable items and collectibles. In an inflationary market, this approach usually results in higher income as older purchases with lower costs are included in cost of sales. (In a deflationary market, the opposite generally holds true.)

Of the two, FIFO is used more often because it more genuinely reflects the typical normal flow of goods and is easier to account for than LIFO, which can be highly complex and deals with inventory costs (not the actual inventory) that may be many years old.

If you're dissatisfied with your company's method, you may be able to change it. But doing so is generally not simple. Should a business wish to change its inventory accounting method for tax purposes, it needs to request permission from the IRS. And if it wishes to change for financial accounting purposes, it needs a valid reason. This is why changes in accounting for inventory are not routine.

TEND TO YOUR GARDEN

As you review your inventory accounting, try to drill down and pinpoint as many discrepancies as possible. By identifying the source of accuracy problems, you can figure out the best solutions. After all, your inventory is like a garden. Left untended, it will grow out of control or die on the vine. Manage yours carefully, however, and it should bear profitable fruit. ■

TAX CALENDAR

January 17

- Individual taxpayers' final 2016 estimated tax payment is due.

January 31

- File 2016 Forms W-2 ("Wage and Tax Statement") with the SSA and provide copies to your employees.
- File 2016 Forms 1099-MISC ("Miscellaneous Income") reporting nonemployee compensation payments in box 7 with the IRS and provide copies to recipients.
- Most employers must file Form 941 ("Employer's Quarterly Federal Tax Return") to report Medicare, Social Security and income taxes withheld in the fourth quarter of 2016. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the quarter in full and on time, you have until February 10 to file the return. Employers who have an estimated annual employment tax liability of $1,000 or less may be eligible to file Form 944 ("Employer's Annual Federal Tax Return").
- File Form 940 ("Employer's Annual Federal Unemployment [FUTA] Tax Return") for 2016. If your undeposited tax is $500 or less, you can either pay it with your return or deposit it. If it is more than $500, you must deposit it. However, if you deposited the tax for the year in full and on time, you have until February 10 to file the return.
- File Form 943 ("Employer's Annual Federal Tax Return for Agricultural Employees") to report Social Security, Medicare and withheld income taxes for 2016. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 10 to file the return.
- File Form 945 ("Annual Return of Withheld Federal Income Tax") for 2016 to report income tax withheld on all nonpayroll items, including backup withholding and withholding on accounts such as pensions, annuities and IRAs. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 10 to file the return.

February 28

- File 2016 Forms 1099-MISC with the IRS and provide copies to recipients. (Note that Forms 1099-MISC reporting nonemployee compensation in box 7 must be filed by Jan. 31, beginning with 2016 forms filed in 2017.)

March 15

- 2016 tax returns must be filed or extended for calendar-year partnerships and S corporations. If the return is not extended, this is also the last day to make 2016 contributions to pension and profit-sharing plans.

Continued from Page 2.

you receive an installment payment, you must report as income the interest and gain components.

Calculating taxable gain involves multiplying the amount of payments, excluding interest, received in the taxable year by the gross profit ratio for the sale. The gross profit ratio is equal to the gross profit (the selling price less your adjusted basis) divided by the total contract price (the selling price less any qualifying indebtedness — mortgages, debts and other liabilities assumed or taken by the buyer — that doesn't exceed your basis).

The selling price includes the money and the fair market value of any other property you received for the sale of the property, selling expenses paid by the buyer and existing debt encumbering the property (regardless of whether the buyer assumes personal liability for it).

You may be considered to have received a taxable payment even if the buyer doesn't pay you directly.

If the buyer assumes or pays any of your debts or expenses, it could be deemed a payment in the year of the sale. In many cases, though, the buyer's assumption of your debt is treated as a recovery of your basis, rather than a payment.

COMPLEX RULES

The rules of installment sales are complex. Please contact us to discuss this strategy further. ■