CRAFT, NOBLE & COMPANY

Welcome to Craft, Noble and Company's e-news update. It's fall and we hope you are enjoy as much pumpkin spice as your heart desires (or as little for those on the other side). Please let us know if you feel we can improve in any aspect.

Here's the most current news for you along with some information on tax reform that has been a hot topic. If you would prefer to receive a print copy of each quarterly e-newsletter, please call our office to place that request.

Be sure to follow us on social media for regular updates on changes in tax law, accounting concepts, firm news, and some fun. We are on Facebook, Twitter, and LinkedIn so be sure to check us out and stay connected even outside of tax season.

Likewise, if you know a friend or colleague who might be interested in receiving this e-newsletter, just click the "Forward to a Friend" button. Privacy and confidentiality is a hallmark of our business, so you can be assured your name or address will not be shared with anyone.

Upcoming Tax Deadlines

October 16th- Filing deadline for 2016 tax returns for individuals or corporations who filed for extensions in April. Tax payments are due by this date.

Payroll Tax Deposits- Employers must make their deposits for the Form 941 payroll taxes (federal income tax withheld and the employee and employers share of the social security taxes). These deposits should be made either monthly or semiweekly depending on your deposit schedule. Exceptions apply if you owe $100,000 or more on any day during the deposit period, if you owe $2,500 or less for the calendar quarter, or if you estimated annual liability is $1,000 or less.

> **Monthly deposits**- These deposits are required to be paid within a calendar month by the fifteenth of the following month.
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> **Semiweekly deposits**- These deposits are required to be paid on Wednesdays or Fridays, depending on when wages are paid.

For any questions you may have on these deadlines, contact our office.

Gift Tax Exclusion Raised to $15,000

The annual gift tax exclusion will increase next year to $15,000, a $1,000 hike over this year's figure and the first jump since 2013. Thus, you will be able to give up to $15,000 apiece to a child or any other person free of gift tax and without having to tap your $5,490,000 estate and gift tax exemption. Your spouse can also give $15,000 to the same donee, making the tax-free gift $30,000.

For example, if you are married with three children and seven grandchildren, you can give up to $30,000 in 2018 to each of your kin without gift tax consequences.

Parents Can't Deduct the Cost of Beauty Pageants

The Tax Court recently ruled that expenses related to a beauty pageant are only deductible by the child. The daughter, who began competing in pageants at age 9, won between $1,000 and $2,000 in prize money each year which was deposited into her college savings account. The parents reported the income on their returns and also took large write-offs for the cost of travel, costumes, and other expenses. However, the tax court ruled that the winnings were compensation for the child's services in the pageants, they should be included in her income and only she could deduct the costs. (Lopez, Tax Court Memo. 2017-171).

Business Tax: Time to Consider Section 179?

Section 179 expensing can be a very powerful tax-planning tool for small- and medium-sized businesses acquiring capital assets. While it doesn't change the amount of depreciation you can take over the life of a capital purchase, it can change the timing by allowing you to deduct your purchase in the first year you place it in service.

How does Section 179 work?

Generally, when you purchase a piece of equipment for your business — say a $10,000 computer system — you can't deduct the entire cost in the year it was purchased. It must take the expense by depreciating the cost over several years.

Section 179 allows you to deduct the cost of the $10,000 computer in the year it was purchased and placed in service. You can deduct the expense of up to $510,000 of qualified property. The $510,000 deduction begins phasing out dollar for dollar if $2.03 million or more of qualified property is purchased during the year (meaning it phases out completely after you've purchased $2.54 million in business capital assets).

What is qualified property?

Qualified property includes things like tangible personal property, computer software and qualified real property (e.g., interior building costs for nonresidential buildings).

Section 179 doesn't apply to property acquired for use in a rental property if it's not your trade or business but simply an investment. Some vehicles qualify for Section 179 expensing, within limits. (The limits were brought about when some business owners bought expensive Hummers and expensed the cost in a single year.)

If you are considering your options for depreciating your business assets under Section 179, here are important details to remember:

- Section 179 allows deducting the expense of up to $510,000 of qualified business purchases.
- A Section 179 deduction cannot create a loss for the business.
- A Section 179 deduction must be for business use. If an asset is not entirely used for business, the allowance is reduced.
- If you sell a Section 179 asset prior to the full depreciation period, you will have to record any sales proceeds as taxable income.
- Many states limit the use of this federal shifting of depreciation.

Taking Section 179 for capital purchases can be useful, but it's not for everyone. Using Section 179 for an immediate tax break means it'll no longer be available for future years. Consider this as you manage your business's tax obligation.

Business Expenses: How to Support Your Deductions

Knowing whether you can or can't expense a purchase for business purposes can be complicated. That's why there are a few hard and fast rules to help you make the best decisions. According to the IRS, business expenses must be ordinary and necessary to be deductible. That means they are common and accepted in your business, as well as helpful and appropriate. You'll need to maintain records (such as journals and ledgers) and supporting documents (e.g., receipts, invoices) to substantiate your deductions. Certain expenses are subject to extra requirements, as described below.

Travel expenses pertain to business trips and can include transportation to and from: your destination, airports, your hotel and business meeting places. They also generally include lodging, meals, tips and other related incidentals.

Do:

- Maintain trip logs describing your business expenses and the purpose of each. If your trip is mostly for business but includes personal components, separate them in your log. These nondeductible personal items could include extending your stay for a vacation or taking personal side trips.
- Deduct travel-related meal costs, but only up to the 50 percent are allowed by the IRS.

Don't:

- Rely on estimates to determine the business vs. personal components of your expenses.
- Deduct any of your travel expenses if your trip is primarily for personal purposes.
- Deduct any of your meal costs if they could be considered unreasonably "lavish or extravagant."

Entertainment expenses need to be either directly related to or associated with the conduct of your business. That means that business is the main purpose of the activities and it's highly likely you'll get income or future business benefits. Expenses from entertainment that isn't considered directly related might still be deductible if they are associated with your business and happen right before or after an important business discussion.

Do:

- Keep records of entertainment expenses, including clear descriptions of the nature, dates and times of the pertinent business activities or discussions.
- Deduct only up to 50 percent of entertainment expenses, as allowed by the IRS.

Don't:

- Claim the costs of pleasure boat outings or entertainment facilities (e.g., hunting lodges).

Business use of your personal car is calculated according to your actual business-related expenses, or by multiplying your business mileage by the prescribed IRS rate (53.5 cents per mile in 2017). This is called the standard mileage rate.

Do:

- Log odometer readings for each business trip and record your business purpose.
- Claim actual basis deductions by applying the ratio of your business-to-total mileage.

Don't:

- Claim mileage or expenses pertaining to commuting to and from work.

Give us a call if you have questions about your business expenses, we would love to help you out.

Trump Tax Plan

Since his election last November President Trump and the Republicans have been mentioned their upcoming tax reform. The tax plan is finally here (for the most part). This plan is far from official and will have many hurdles to pass through but it could end of being the largest overhaul of the tax code in decades. Here are some of the main points from businessinsider.com

Business Tax changes:

- **A 20% corporate tax rate**. This is the first time Trump has publicly backed down from one of his earliest campaign promises: a 15% corporate tax rate. The budget math required for a 15% rate was too difficult, so the somewhat higher rate is the opening bid. The current statutory federal rate is 35%.

- **A 25% rate for pass-through businesses**. Instead of getting taxed at an individual rate for business profits, people who own their own business would pay at the pass-through rate. The plan also says it will consider rules to prevent "personal income" from being taxed at this rate. Mnuchin previously suggested there may be limitations on what types of businesses get this rate — it could apply only to goods producers and not service-oriented companies to prevent people from creating limited-liability corporations to store their assets and receive a lower rate.

- **Elimination of some business deductions, industry-specific incentives, and more**. There are few details, but the plan includes language regarding the "streamlining" of business tax breaks.

- **A one-time repatriation tax**. All overseas assets from US-owned companies would be considered repatriated and taxed at a one-time lower rate — this is designed to bring corporate profits back from overseas. Illiquid assets like real estate would be taxed at a lower rate than cash or cash equivalents, and the payments would be spread out over time. While there is no precise number in the plan, officials have indicated the rate could end up somewhere around 10%.

Personal tax changes:

- **Realigned Tax Brackets**
  - **A bottom individual tax rate of 12%**. The plan specifies three tax brackets, with the lowest rate being 12%. That would represent a slight bump in the bottom bracket, which is now 10%.
  - **A middle tax bracket of 25%.** The incomes in this bracket aren't specified.
  - **The top individual tax rate of 35%.** The current top rate is 39.6%.
  - **The possibility of a fourth, higher bracket**. Because of Trump's insistence that taxes for the wealthiest Americans not decrease, the plan proposes the possibility of a fourth tax bracket at a rate higher than 35% if the tax-writing committees wish.

- **A larger standard deduction**. To avoid raising taxes on those currently in the 10% tax bracket, the standard deduction for all taxes would increase to $12,000 for individuals (up from $6,350) and $24,000 for married couples (up from $12,700).

- **Eliminates most itemized deductions**. The only deduction preserved explicitly in the plan is for charitable gifts and home-mortgage interest. One of the deduction that may be cut is the state and local tax deduction.

- **Repeals the alternative minimum tax (AMT):** The tax, which forces people who qualify due to an outsized number of deductions, will be eliminated.

- **Increases the size of the child tax credit**. A pet project of Ivanka Trump, the proposal is to make the first $1,000 of the child tax credit refundable and increase the income level at which the credit would phase out.

- **Elimination of the estate tax**. Called the "death tax" in the plan, this applies only to inherited assets totaling $5.49 million or more in 2017. Very few households pay the estate tax, but it has long been a target for Republicans.

This is bound to be a hot topic along with the ongoing healthcare discussions. We will keep you updated both through this newsletter and on our social media pages.

Here's a breakdown of what the new and old tax brackets could look like:

How Trump's tax plan could change federal income tax brackets:

Single Filers

2017		PROPOSED UNDER TRUMP'S TAX PLAN	
10%	$0 – $9,325	12%	Income range not yet specified
15%	$9,326 – $37,950		
25%	$37,951 – $91,900	25%	Income range not yet specified
28%	$91,901 – $191,650		
33%	$191,651 – $416,700		
35%	$416,701 – $418,400	35%	Income range not yet specified
39.6%	$418,401 or more		
Standard deduction:	**$6,350**	Standard deduction:	**$12,000**
Personal exemption:	**$4,050**	Personal exemption:	**Eliminated**

How Trump's tax plan could change federal income tax brackets:

Joint Filers

2017		PROPOSED UNDER TRUMP'S TAX PLAN	
10%	$0 – $18,650	12%	Income range not yet specified
15%	$18,651 – $75,900		
25%	$75,901 – $153,100	25%	Income range not yet specified
28%	$153,101 – $233,350		
33%	$233,351 – $416,700		
35%	$416,701 – $470,700	35%	Income range not yet specified
39.6%	$470,701 or more		
Standard deduction:	**$12,700**	Standard deduction:	**$24,000**
Personal exemption:	**$4,050**	Personal exemption:	**Eliminated**