



5 Important Tax Items Before Year-end





DIANNA STREED, CPA

Practiced accounting for more than 30 years and has considerable experience in tax and consulting.

EXPERTISE

- Tax consulting and services for businesses, individuals, trusts and estates
- Small business services

INDUSTRIES

- Hospitality
- Manufacturing
- Nonprofits
- Small Business

MEMBER

- AICPA
- MNCPA
- Red Wing Area Chamber of Commerce
- Red Wing Rotary
- Lake City Chamber of Commerce

ABOUT US



Community-oriented Minnesota Accounting Firm Since 1971.

Smith Schafer & Associates is a “**Minnesota Top 25**”
accounting and business consulting firm offering a
thoughtful advisory relationship to business and
individual clients.

SERVICES

We have the experience to **communicate clear expectations with our clients** and we work hard behind the scenes to **deliver clean, quality results**.

We are focused on the **best advice for every situation**, presented in a **timely and simple way** that solves or avoids problems for our clients and other stakeholders.

OUR SERVICE AREAS INCLUDE:

- Auditing
- Business Tax
- Individual Tax
- Business Consulting
- Business Valuation
- Employee Benefit Plans
- Financial, Estate & Retirement Planning
- Accounting Software Consulting
- HR Consulting
- Technology Consulting

MARKET FOCUS

With more than **45 years of experience**, Smith Schafer has vast experience across a broad range of industries. It may seem daunting to stay current with all the new laws, limitations and regulations, but **Smith Schafer is here to help**. We have **proactively** developed a full-service team to address **industry-specific and organizational challenges**. We stay current on requirements in these industries and collaborate efficiently with our clients' internal leadership and other advisors.

OUR KEY INDUSTRY PRACTICE AREAS INCLUDE:

- Hospitality
- Nonprofit
- Professional Service Firms
- Construction & Real Estate
- Transportation
- Government



TOP WORKPLACE

Smith Schafer has been named one of the **Top Workplaces in Minnesota** by the Star Tribune.

Over 1,555 organizations were invited to participate in the survey and over 73,870 employees shared their views.

We are honored to be included in the list of Top Workplaces. Especially since the judges were our employees!

FLSA Changes

- On August 31, a federal judge in Texas granted summary judgment to states and business groups that had challenged a U.S. Department of Labor rule that would have more than doubled the salary threshold for certain “white-collar” salaried employees to be exempt from overtime pay.
- This action effectively strikes down the DOL’s rule.

Minimum Wage Rates - 2017

- Large employer - any enterprise with an annual gross dollar volume of sales made or business
 - done of \$500,000 or more \$9.50/hr
 - Small employer \$7.75/hr
 - Training wage \$7.75/hr
 - Youth wage \$7.75/hr

Minimum Wage Rates - Effective Jan. 1, 2018

- Large employer (any enterprise with an annual gross dollar volume of sales made or business
 - done of \$500,000 or more \$9.65/hr
 - Small employer \$7.87/hr
 - Training wage \$7.87/hr
 - Youth wage \$7.87/hr



2018 Payroll Tax Updates

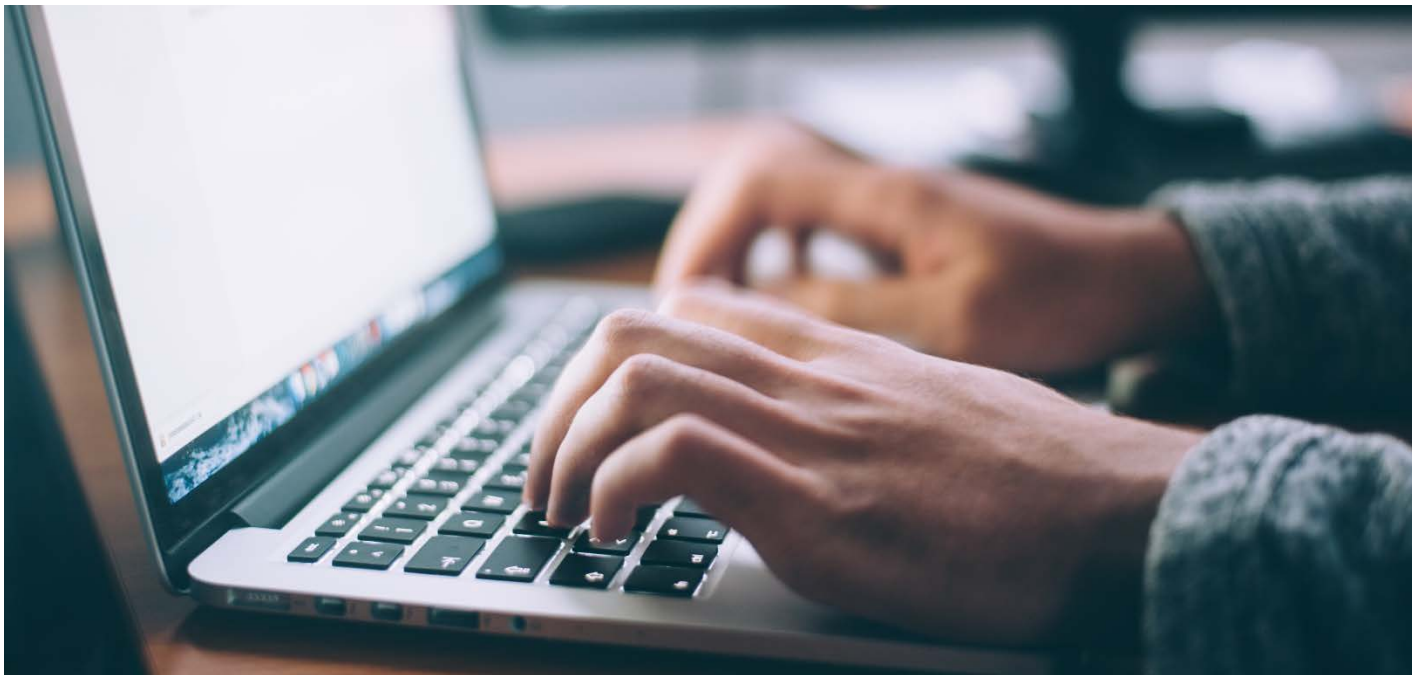
In October of each year, the Social Security Administration announces adjustments taking effect the following January based on the increase in average wages. Based on the wage data Social Security had at the time of the October 13, 2017, announcement, the maximum amount of earnings subject to the Social Security tax (taxable maximum) was to increase to \$128,700 in 2018, from \$127,200 in 2017.

The new amount for 2018, based on updated wage data reported to Social Security, is \$128,400.



Revised Form I-9

USCIS released a revised version of Form I-9, Employment Eligibility Verification, on July 17. Employers may use this revised version or continue using Form I-9 with a revision date of 11/14/16 through Sept. 17. On Sept. 18, employers must use the revised form with a revision date of 07/17/17. Employers must continue following existing storage and retention rules for any previously completed Form I-9.



Revised Form I-9

Revisions to the Form I-9 instructions:

- Changed the name of the Office of Special Counsel for Immigration-Related Unfair Employment Practices to its new name, Immigrant and Employee Rights Section.
- Removed “the end of” from the phrase “the first day of employment.”

Revisions related to the List of Acceptable Documents on Form I-9:

- Added the Consular Report of Birth Abroad (Form FS-240) to List C. Employers completing Form I-9 on a computer will be able to select Form FS-240 from the drop-down menus available in List C of Sections 2 and 3. E-Verify users will also be able to select Form FS-240 when creating a case for an employee who has presented this document for Form I-9.
- Combined all the certifications of report of birth issued by the Department of State (Form FS-545, Form DS-1350, and Form FS-240) into selection C #2 in List C.
- Renumbered all List C documents except the Social Security card. For example, the employment authorization document issued by the Department of Homeland Security on List C changed from List C #8 to List C #7.

Note: Beware of a new scam-sending emails that appear to be from US Immigration asking for I-9 information. Do not respond to these or click on the links. Employers are NOT required to submit I-9 forms to USCIS.

Revised Form I-9

Preparer and/or Translator Certification (check one):

☐ I did not use a preparer or translator.

☐ A preparer(s) and/or translator(s) assisted the employee in completing Section 1.

(Fields below must be completed and signed when preparers and/or translators assist an employee in completing Section 1.)

I attest, under penalty of perjury, that I have assisted in the completion of Section 1 of this form and that to the best of my knowledge the information is true and correct.

Signature of Preparer or Translator		Today's Date (mm/dd/yyyy)	
Last Name (Family Name)		First Name (Given Name)	
Address (Street Number and Name)	City or Town	State	ZIP Code



Employer Completes Next Page



Form I-9 07/17/17 N

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IRS Announces 2018 Contribution Limits

RETIREMENT PLAN LIMITS	2017	2018
Annual compensation limit	\$270,000	\$275,000
401(k), 403(b) & 457(b) employee contributions	\$18,000	\$18,500
Catch-up contributions (if age 50 or older)	\$6,000	\$6,000
Highly compensated employee threshold	\$120,000	\$120,000
Key employee officer compensation threshold	\$175,000	\$175,000
Defined benefit plan annual benefit and accrual limit	\$215,000	\$220,000
Defined contribution plan annual contribution limit	\$54,000	\$55,000
Employee stock ownership plan (ESOP) limit for determining the length of the general five-year distribution plan	\$215,000	\$220,000
ESOP limit for determining the maximum account balance subject to the general five-year distribution period	\$1,080,000	\$1,105,000
Roth IRA and traditional IRA	\$5,500	\$5,500
Roth IRA and IRA catch-up contributions	\$1,000	\$1,000
SIMPLE salary deferral	\$12,500	\$12,500
SIMPLE catch-up limit	\$3,000	\$3,000

IRS Announces 2018 Contribution Limits

Health Flexible Spending Accounts maximum salary reduction limit	\$2,600	\$2,650
High Deductible Health Plans (HDHP) – <i>maximum annual out-of-pocket limit (excluding premiums):</i>		
Self-only coverage	\$6,550	\$6,650
Family coverage	\$13,100	\$13,300
HDHP – <i>minimum annual deductible:</i>		
Self-only coverage	\$1,300	\$1,350
Family coverage	\$2,600	\$2,700
Health Savings Accounts (HSA) – <i>annual contribution limit:</i>		
Self-only coverage	\$3,400	\$3,450
Family coverage	\$6,750	\$6,900
Catch-up contributions (age 55 or older)	\$1,000	\$1,000

Employee vs. Independent Contractor

- Employer controls
 - When you work
 - How you do it
 - Employer supplies
 - Tools
 - Know how completed
 - Benefits
 - Vacation reimbursement
 - Health insurance supplies
 - Retirement plan

Individual HAS WRITTEN contract stating length of project.

What happens if not completed properly?

- No reimbursement of gas or supplies
- Pays in own FICA

IRS 20 Factor Test

Some of the more common ones include:

- Instructions
- Training
- Continuing relationship
- Set hours of work
- Payment by hours, week or month
- Furnishing of tools and materials
- Significant investment
- Making service available to the general public
- Performing work on employer's premises
- Payment of business and/or travel expenses

Information Returns

If, as a part of your business, you make any of the following types of payments; an IRS Form 1099 is required to be filed:

- Payments, in the course of your trade or business for:
 - Services performed by independent contractors or others (not employees of your business)
 - Prizes and awards and certain other payments
 - Rent (including and self-rentals)
 - Royalties (if \$10 or more)
 - Gross proceeds of \$600 or more paid to an attorney (including lawsuit settlements)
 - Interest on a business debt to someone
 - Dividends or other distributions to a company shareholder (other than S corporation distributions)

1099 Reporting

You are NOT required to file Forms 1099 if:

- You are not engaged in a trade or business.
- You are engaged in a trade or business and the payment was made to another business that is incorporated.
- The sum of all payments made to the person or unincorporated business is less than \$600 for one tax year (unless the recipient is an attorney or law firm).

1099 Reporting

For the 2017 tax year, forms 1099 are generally required to be furnished to the recipient by January 31, 2018. The forms are also due to the IRS by January 31, 2018, for both paper & electronic.(if any payments for nonemployee compensation in box 7.) The IRS has increased the failure to file penalties, which may be up to \$530 per form, if failures are deemed to be an intentional disregard to file.

Minnesota Sales Tax Changes

- **Effective 1/1/17, in this area, Winona County increased their tax rate by 0.5% to include the transit sales and use tax.**
- **Effective 7/1/17, Olmsted County increased their tax rate to .5 percent from .25 percent for the transit sales and use tax.**
- **Effective 10/1/17, there were changes to the Transit Improvement Area Sales and Use Tax, as well as rate changes for other jurisdictions. (including counties of Anoka, Dakota, Hennepin, Ramsey, and Washington)**

Minnesota Sales Tax Changes

- MN Department of Revenue website has a sales tax calculator to determine the state and local sales and use tax rate to apply to taxable purchases. (nine digit zip code method is most accurate)
- As a general rule, local sales tax should be charged to customers on all sales made in a local taxing area, unless the customer provides an exemption certificate. It applies to anyone who is from outside the city or county and picks up items in the local area for business or personal use.

MN Capital Equipment Refund



Beginning **July 1, 2015**, Minnesota's sales and use tax exemption on capital equipment became an upfront exemption instead of a request for refund.

Businesses will be required to complete and submit Form ST-3, Certificate of Exemption, to the supplier of the equipment.

MN Capital Equipment Refund

- **Must be used in Minnesota by the purchaser**
- **Machinery or equipment must be used primarily to make a product for sale, ultimately at retail**
- **Capital equipment not the same as is for tax and accounting purposes**
- **Repair and replacement parts, including spare parts are included in exemption**
- **Farm machinery, motor vehicles or machinery or equipment used to receive or store raw materials do not qualify for the exemption**

New Due Dates of Tax Returns- 2nd Year

- **Partnerships – Form 1065 March 15th (Note MN changed their due date to match the federal due date for the 2017 returns**
- **C Corporations – Form 1120 April 15th**
- **FinCen - April 15th but now has an October 15th extension available**
- **Information returns (W-2 and 1099's) Jan 31 for W-2's and certain 1099-MISC; all others remain at Feb 28; April 2, if filed electronically**
- **Some extension dates changed for various forms**

Capitalization Policy

- **Taxpayers need to be sure they have a good capitalization policy in place in order to take advantage of some of the more liberal rules surrounding the de minimis election for tax purposes.**
- **New threshold for taxpayers without an AFS is effective for expenditures in taxable years beginning on or after January 1, 2016.**
- **\$500 to \$2,500 on a per-invoice or per-item basis; \$5,000 with an audited financial statement and a written capitalization policy.**
- **Need to have accounting procedures in place at beginning of the year in which intends to apply these rules (not required to be in writing).**

Charitable Contributions

- **Be sure you can claim the deduction; in order to claim, the organization must be qualified by the IRS.**
- **You or your business can deduct: cash contributions, gifts of property or equipment (FMV), mileage and other travel expenses incurred in relation to working for a charitable organization, based on the IRS-designated standard mileage rate for charitable work.**
- **You cannot deduct your time or the time of your employees working as a volunteer for a charitable organization, such as serving on a corporate board.**
- **If a benefit is received in exchange for the donation, the deduction is reduced by the value of the benefit received.**
- **C Corporations can deduct charitable contributions on their tax returns subject to limitations while S corporations and partnerships pass them out to their respective shareholders and partners to take on their personal returns. This is also true for sole proprietors.**

Charitable Contributions

- **Required written acknowledgements from the charity must be received by the taxpayer by the earlier of the date of filing or due date of the tax return, including extensions.**
- **Written statement required (with a few exceptions) if a donation is more than \$75 and is partly a contribution and partly for goods or services and must contain an estimate of the value received.**
- **Cash contributions with bank record such as canceled check, bank statement, credit card statement showing date, amount of contribution, and organization name ; receipt with date, amount, and organization name; payroll record and pledge card, if applicable. For those \$250 or more, need above mentioned items along with written acknowledgement from organization showing date, amount, statement whether any goods or services were received including estimate, and a statement that the only benefit received was an intangible religious benefit (if applicable.)**
- **Noncash contributions under \$250 need the following: receipt showing name of organization, date and location of contribution, description of donation, and documentation of FMV and method used to determine, cost or basis of appreciated property, amount claimed in current year if contribution is less than entire interest, and any terms attached to the contribution. If \$250-\$500, need written acknowledgement showing date and location of donation, description of donation, whether any goods or services other than intangible received including estimate, and a statement that the only benefit received was an intangible religious benefit, if applicable. If \$501-\$5,000, same as above plus how property acquired, approximate date acquired, cost or other basis. If over \$5,000, same as above but a written appraisal is generally also required.**
- **The IRS is starting to disallow these if the above is not followed.**

Year-End Business Tax Planning

- IRC Section 179 permits “expensing,” or first-year tax deduction, of outlays for business equipment that otherwise would be recovered through depreciation over many years. For 2017, expensing the costs of up to \$510,000 of equipment is allowed, with a phase-out beginning after \$2.03 million of purchases.

Example: DEF Corp. spends \$800,000 on qualified items in 2017. The first \$510,000 can be deducted immediately, but the other \$290,000 must be depreciated.

- Beyond IRC Section 179, “bonus” depreciation is in effect in 2017. Companies can depreciate 50% of the cost of relevant equipment acquired and placed in service this year. Bonus depreciation will drop from 50% to 40% in 2018 and 30% in 2019; this tax break applies only to new equipment, whereas Section 179 expensing applies to new and used equipment.
- Uncertainty about whether tax legislation will pass this year and what such a law might include.....lower tax rates are a possibility. Consequently, you might plan to defer business income into 2018, when tax rates might drop, and accelerate company deductions into 2017 to offset highly taxed income. i.e. If cash basis, delay sending out invoices late in the year, so you will receive the payments (and owe the tax) in 2018.

Year-End Business Tax Planning

- **Even if tax rates do not drop under a new law, deferring income-and the resulting tax-for a year may be helpful for your company's cash flow.**
- **Similarly, accelerating deductible expenses from early 2018 to late 2017 may be advisable. Necessary equipment repairs might be pushed forward, for example.**
- **If your company pays substantial bonuses to employees, consider the timing as 2017 ends. Cash method businesses might pay those bonuses in December. Companies on the accrual method generally can deduct bonuses to unrelated employees in 2017, if their obligation to pay the bonuses is fixed and determinable at year-end and they make the bonus payments within 2 ½ months after year-end.**

Recordkeeping

ONE YEAR	THREE YEARS	SEVEN YEARS	PERMANENTLY
Duplicate Deposit Slips	General Correspondence	Accident Reports	Audit Report of Accountant
Receiving Sheets	Internal Audit Reports	Accounts Payable Ledger	Capital Stock Records
Requisitions	Internal Reports	Bank Statements	Cash Books
Routine Correspondence	Petty Cash Vouchers	Canceled Checks	Checks (important)
Stenographer's Notebook	Physical Inventory Tags	Contracts & Leases	Contracts & Leases
Stockroom Withdrawal Forms	Savings Bond Registration Records	Expense Analysis & Distribution Schedule	Correspondence: Legal & Important Matters
		Inventories & Invoices	Deeds & Mortgages
		Notes Receivable Ledger	Depreciation Schedules
		Payroll Records	Financial Statements
		Purchase Orders	General & Private Ledger
		Sales Records	Insurance
		Stock & Bond Certificates	Journals
		Time Books	Property Records
		Vouchers	Tax Returns & Reports

Tax Alert

TAX SCAMS!

There has been an increase in scam telephone calls from individuals claiming to be representatives from the Internal Revenue Service. These callers tell the victim that he or she owes money to the IRS and the money owed needs to be paid to avoid further action by the IRS.

Tax Scams

CHARACTERISTICS OF A SCAM

- Callers give the victim fake names and IRS badge numbers.
- Callers may be able to recite the last four digits of a victim's Social Security Number.
- Callers appear to be calling from the IRS toll-free number on caller ID. This makes it appear the IRS is calling.
- Sometimes the calls are followed up with "IRS" emails to support these calls.
- Victims hear background noise of other calls being conducted to mimic a call site.
- After threatening victims with jail time or driver's license revocation, the "IRS" caller hangs up and another caller calls back pretending to be from the local police or DMV, and the caller ID supports their claim.

Tax Scams

The IRS **DOES NOT** initiate contact with taxpayers by telephone or by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels. The IRS does not ask for PINs, passwords or similar confidential access information for credit card, bank, or other financial accounts. Recipients should not open any attachments or click on any links contained in the message. Instead, forward the e-mail to **phishing@irs.gov**.

Data Security

“Make data security an everyday priority, “Message 2 of 4 from the IRS Return Preparer Office”

- **“To protect your clients and yourself from cybercriminals, you must make data security an everyday priority. This includes having a security plan. Some steps you should take as part of that security plan are: having security software that includes a firewall, anti-malware and anti-virus programs; creating strong passwords that are changed periodically; educating employees on the dangers of phishing emails and other threats to taxpayer data; exercising caution with attachments and web links; and a secure password protected wireless connection. “**
- **“It is particularly important for you and your staff to be cautious when opening attachments or clicking links in emails. Hold your cursor over the link to see the URL. Look closely at the full email address of the sender. “**
- **“The IRS has an education series called "Don't Take the Bait." There are descriptions of ten variations of phishing scams we have seen. To review the information, visit IRS.gov and enter keyword: Don't Take the Bait.”**



ANY QUESTIONS?

Smith Schafer can go over your specific situation and identify areas of opportunity.

**Contact us today to schedule a
FREE 30 MINUTE CONSULTATION
where we will analyze your return for tax savings.**

CONTACT US!

TELEPHONE: 651-388-2858

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