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The Scoop

November 16, 2016

Agenda

- Trump's Tax Plan
- E-Services Scam
- International Issues
- State Changes
- Expired 2016 Tax Provisions

Individual Income Tax Changes

- Trump's new proposal would more than halve the number of income tax brackets and bring rates down to 12%, 25% and 33%

Marginal Tax Rate	Taxable Income (Single)	Taxable Income (Married joint filers)
12%	$0-$37,500	$0-$75,000
25%	$37,500-$112,500	$75,000-$225,000
33%	$112,500 and above	$225,000 and above

Trump's Tax Plan

- He would eliminate the head of household status, which today benefits single parents of dependents more than if they just filed as single
- He would repeal personal exemptions, each worth $4,050 per parent and per dependent
- Increase the standard deduction amount from $6,300 to $15,000 for single taxpayers and from $12,600 to $30,000 for married joint filers
- The plan would cap itemized deductions at $200,000 for Married-Joint filers or $100,000 for Single filers

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Individual Income Tax Changes

- Retain the existing capital gains rate structure (maximum rate of 20 percent)
- Carried interest will be taxed as ordinary income
- The 3.8 percent Obamacare tax on investment income will be repealed(cost: $123 billion), as will the alternative minimum tax (cost: $400 billion)
- Phases out the tax exemption on life insurance interest

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Individual Income Tax Changes

- Americans will be able to take an above-the-line deduction for children under age 13 that will be capped at state average for age of child, and for eldercare for a dependent
- The exclusion will not be available to taxpayers with total income over $500,000 Married-Joint /$250,000 Single
- Working and middle class families will see the largest percentage reduction in their taxable income

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Individual Income Tax Changes

- The childcare exclusion would be provided to families who use stay-at-home parents or grandparents as well as those who use paid caregivers, and would be limited to 4 children per taxpayer
- The eldercare exclusion would be capped at $5,000 per year
- The cap would increase each year at the rate of inflation

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Individual Income Tax Changes

- The plan would offer spending rebates for childcare expenses to certain low-income taxpayers through the Earned Income Tax Credit (EITC)
- The rebate would be equal to 7.65 percent of remaining eligible childcare expenses, subject to a cap of half of the payroll taxes paid by the taxpayer (based on the lower-earning parent in a two-earner household)

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Individual Income Tax Changes

- This rebate would be available to married joint filers earning $62,400 ($31,200 for single taxpayers) or less
- Limitations on costs eligible for exclusion and the number of beneficiaries would be the same as for the basic exclusion
- The ceiling would increase with inflation each year

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Individual Income Tax Changes

- All taxpayers would be able to establish Dependent Care Savings Accounts (DCSAs) for the benefit of specific individuals, including unborn children
- Total annual contributions to a DCSA are limited to $2,000 per year from all sources, which include the account owner (parent in the case of a minor or the person establishing elder care account), immediate family members of the account owner, and the employer of the account owner

Individual Income Tax Changes

- When established for children, the funds remaining in the account when the child reaches 18 can be used for education expenses, but additional contributions could not be made

Estate Tax

- Eliminates the Estate Tax (cost: $269 billion)

Business Income Tax Changes

- Cuts the corporate income tax rate from the current 35 percent to 15 percent (cost $2.5 trillion)
- Ends the deferral of income from controlled foreign subsidiaries
- Preserves the foreign tax credit
- It would also enact, as a transitional revenue raiser, a one-time deemed repatriation tax of 10 percent on all foreign profits currently deferred

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Business Income Tax Changes

- Taxes pass-through businesses at the rate of 15 percent commensurate with the traditional corporations
- Caps the deductibility of interest expenses
- Eliminate the corporate alternative minimum tax
- This rate is available to all businesses, both small and large, that want to retain the profits within the business

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Business Income Tax Changes

- Firms engaged in manufacturing in the US may elect to expense capital investment and lose the deductibility of corporate interest expense
- An election once made can only be revoked within the first 3 years of election; if revoked, returns for prior years would need to be amended to show revised status
- After 3 years, election is irrevocable

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Business Income Tax Changes

- The annual cap for the business tax credit for on-site childcare authorized by § 205 of the Economic Growth and Tax Relief Reconciliation Act of 2001 would be increased to $500,000 per year (up from $150,000) and recapture period would be reduced to 5 years (down from 10 years)
- Businesses that pay a portion of an employee’s childcare expenses can exclude those contributions from income

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Business Income Tax Changes

- Employees who are recipients of direct employer subsidies would not be able to exclude those costs from the individual income tax and the costs of direct subsidies to employees could not be used as a cost eligible for the credit

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Business Tax Cuts; Farewell Depreciation

- Businesses would be permitted, however, to immediately deduct the cost of asset acquisitions
- Depreciation – GONE
- Businesses that fully deduct asset costs will not be permitted to deduct interest expense on any borrowing, a provision that’s intended to reduce corporate dependence on debt

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"Pass Through"

- The bigger changes under the Trump plan comes in the treatment of so-called "pass through" taxation
- Under current law, S corporations and partnerships do not pay entity-level tax; instead, the income is allocated to the owners, who pay the corresponding tax at the individual level

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Tax Rate Drop

- Trump would provide a unified business rate of 15%, ALL business income – even the income earned by an individual from an S corporation, partnership, or sole-proprietorship and reported on the individual's tax return — will be subject to the same 15% rate
- This means that a taxpayer earning business income would experience a drop in top tax rate from 39.6% to 15% under the Trump presidency

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Summary

- Reduce taxes across-the-board, especially for working and middle-income Americans who will receive a massive tax reduction
- Ensure the rich will pay their fair share, but no one will pay so much that it destroys jobs or undermines our ability to compete
- Eliminate special interest loopholes, make our business tax rate more competitive to keep jobs in America, create new opportunities and revitalize our economy

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Summary

- Reduce the cost of childcare by allowing families to fully deduct the average cost of childcare from their taxes, including stay-at-home parents
- Eliminate a number of complex features in the current tax code
- Cut taxes by $11.98 trillion over the next decade
- However, the plan would end up reducing tax revenues by $10.14 trillion over the next decade when accounting for economic growth from increases in the supply of labor and capital

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Trump's Tax Plan

- The plan would also lead to a 29% larger capital stock
- 6.5% higher wages
- 5.3 million more full-time equivalent jobs
- The plan would cut taxes and lead to higher after-tax incomes for taxpayers at all levels of income

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IRS Warns Tax Professionals of New e-Services Email Scam

- The Internal Revenue Service issued an urgent alert to tax professionals who use IRS e-services to beware of an email asking them to update their accounts and directing them to a fake website.
- The subject line for the fraudulent email is "Security Awareness for Tax Professionals"
- The "From" line is "Your e-Services Team"

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IRS Warns Tax Professionals of New e-Services Email Scam

- It has both an IRS logo and an e-services logo that hyperlinks to a URL verified as a phishing site
- The spoofing site poses as an e-services registration page
- The scammers are attempting to exploit current IRS efforts to strengthen the e-services authentication process and its ongoing communications with tax professionals about their accounts

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IRS Warns Tax Professionals of New e-Services Email Scam

- Scammers are attempting to steal e-services usernames and passwords or even more personal data through a registration page
- If e-services users have already clicked on the fake logo and provided their username and password, they should contact the e-services help desk to reset their accounts
- Tax professionals should always go directly to IRS.gov to access e-services, never click on any links provided in emails

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IRS Warns Tax Professionals of New e-Services Email Scam

- Tax professionals who receive a suspicious email should send it as an attachment to Phishing@irs.gov and then delete it
- Recipients should not click on any links.

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Tax Professionals Should Perform Periodic Check of EFIN Status

- Tax professionals gearing up for the 2017 filing season should include a review of their Electronic Filing Identification Number (EFIN) status to ensure its accuracy and security
- The IRS recommends certain steps prior to and during the filing season

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What to Check?

- Review the e-file application on e-services at IRS.gov before the filing season
- The e-file application information should be updated within 30 days of any changes, such as individuals involved, addresses or telephone numbers
- Failure to do so may result in the inactivation of your EFIN.
- Ensure proper individuals are identified on the application

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The Application

- The application should only include individuals as Principals who are authorized to act for the business entity in legal and/or tax matters
- For example:
  - Sole Proprietor is the Principal
  - Partnership should list each partner who has 5% or more interest in the partnership
  - Corporation should list the President, Vice-President, Secretary and Treasurer

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Your EFIN

- Help safeguard your EFIN. During the filing season, check on your EFIN status to ensure that your EFIN is not being used by others improperly
- Your e-file application will help verify the volume received by the IRS which you can match to your records
- The statistics are updated weekly
- Should you see a higher volume than you transmitted, please contact the e-help Desk at 866-255-0654.

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IRS Announces 2017 Estate And Gift Tax Limits: The $11 Million Tax Break

- For 2017, the estate and gift tax exemption is $5.49 million per individual, up from $5.45 million in 2016
- That means an individual can leave $5.49 million to heirs and pay no federal estate or gift tax
- A married couple will be able to shield just shy of $11 million ($10.98 million) from federal estate and gift taxes
- The annual gift exclusion remains at $14,000 for 2017

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It Could Be Worse: Tax News From Other Parts of the World

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Vancouver Introduces Empty Homes Tax

- Vancouver is to apply a one percent Empty Homes Tax from January 1, 2017, Mayor Gregor Robertson has announced
- The Mayor's Office has recommended that all non-principal residences that are unoccupied for six full months of the year will be subject to the Tax
- Vacant residential land will also be subject to the tax

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High Number Of US Expats Giving Up Passports, Green Cards

- So far this year, the Treasury has said 3,046 taxpayers have relinquished their citizenship –
- The acceleration in the number of individuals giving up their citizenship, particularly since 2013, has coincided with increased actions by Treasury and Internal Revenue Service to trace American undeclared assets and income held abroad, particularly by enforcing the Foreign Account Tax Compliance Act (FATCA) and the requirement to file a Report of Foreign Bank and Financial Accounts.

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Expiring Tax Provisions

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Tax Provisions Expiring in 2016 ("Tax Extenders")

- Four individual tax provisions are scheduled to expire at the end of 2016
- Above-the-Line Deduction for Qualified Tuition and Related Expenses
- Mortgage Insurance Premiums Treated as Qualified Residence Interest
- Exclusion of Discharge of Principal Residence Indebtedness from Gross Income for Individuals
- Medical Expense Deduction Adjusted Gross Income (AGI) Floor of 7.5% for Individuals Age 65 and Over

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Tax Provisions Expiring in 2016 ("Tax Extenders")

- Temporary Increase in Limit on Cover Over of Rum Excise Tax Revenues to Puerto Rico and the Virgin Islands
- Qualified Zone Academy Bonds - Allocation of Bond Limitation
- Indian Employment Tax Credit
- Accelerated Depreciation for Business Property on Indian Reservations
- American Samoa Economic Development Credit
- Credit for Railroad Track Maintenance

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Tax Provisions Expiring in 2016 ("Tax Extenders")

- Seven-Year Recovery for Motorsport Racing Facilities
- Deduction Allowable with Respect to Income Attributable to Domestic Production Activities in Puerto Rico
- Mine Rescue Team Training Credit
- Election to Expense Mine-Safety Equipment
- Special Expensing Rules for Film and Television Production
- Empowerment Zone Tax Incentivesd

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Tax Provisions Expiring in 2016 (“Tax Extenders”)

- Three-Year Depreciation for Race Horses Two Years or Younger
- Special Rate for Qualified Timber Gains

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Tax Provisions Expiring in 2016- Energy Provisions (“Tax Extenders”)

- Beginning-of-Construction Date for Non-Wind Facilities to Claim the Production Tax Credit (PTC) or the Investment Tax Credit (ITC) in Lieu of the PTC
- Special Rule to Implement Electric Transmission Restructuring
- Credit for Construction of Energy Efficient New Homes
- Energy Efficient Commercial Building Deduction
- Credit for Section 25C Nonbusiness Energy Property
- Alternative Fuel Vehicle Refueling Property

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Tax Provisions Expiring in 2016- Energy Provisions (“Tax Extenders”)

- Incentives for Alternative Fuel and Alternative Fuel Mixtures
- Incentives for Biodiesel and Renewable Diesel
- Second Generation (Cellulosic) Biofuel Producer Credit
- Credit for Production of Indian Coal
- Special Depreciation Allowance for Second Generation (Cellulosic) Biofuel Plant Property
- Alternative motor vehicle credit for qualified fuel cell vehicles

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Tax Provisions Expiring in 2016- Energy Provisions ("Tax Extenders")

- Credit for two-wheeled plug-in electric vehicles
- Energy Credit for Hybrid Solar Lighting Systems, Geothermal Heat Pumps, Small Wind, Combined Heat and Power, Fuel Cell, and Stationary Micro-turbine Power Plant Property
- Five-Year Cost Recovery for Certain Energy Property
- Credit for Residential Energy Property

State Changes

Sales & Use Tax Jurisdiction Code Booklet

- Kansas combined sales tax rates listed in this booklet are effective January 1, 2017
- Publication KS-1700

Iowa Department of Revenue Change

- Iowa just filed rules on November 2 to allow e-signatures on IA 8453
- So there is nothing final, but there is an attempt on the Department's part to allow this

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Iowa Capital Gain Deduction & Form IA 100 – November 16, 2016

- This online course will provide an overview of the Iowa capital gain deduction and the IA 100 form series. This course will cover the individual income tax deduction for the capital gain from the sale of:
  - Cattle, horses, and breeding livestock
  - Real property used in a farm business
  - Real property used in a non-farm business
  - Timber
  - Employer securities to a qualified Iowa employee stock ownership plan (ESOP)

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To Register:

- http://www.iasourcelink.com/resources/business-webinars/iowa-tax-webinars

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Use the Same Link to Register for this Upcoming Seminar

- Electronic Submission of W-2s & 1099s – December 14, 2016
- Beginning in 2017 for tax year 2016:
- Withholding agents with 50 or more employees must electronically file W-2 forms with the Department by the last day of January following the tax year
- Withholding agents with less than 50 employees may, but are not required to, electronically file W-2 forms with the Department by January 31, 2017
- Withholding agents may, but are not required to, electronically file W-2G and 1099 forms with the Department by January 31, 2017
- Beginning in 2018 for tax year 2017:
- All are required to electronically file W-2, W-2G, and 1099 forms with the Department by the last day of January following the tax year.
- **Verified Summary of Payments Report (VSP)**
- All withholding agents are required to submit a completed VSP by January 31.

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Farm and Urban Tax Schools 2016

- November 17, 2016 to December 13, 2016
- 4 Locations in Iowa and Online Webinar
- Save the Date for the 2016 Annual Farm and Urban Income Tax Schools
- The program is intended for tax professionals and is designed to provide up-to-date training on current tax law and regulations
  - November 17-18: Ottumwa
  - November 21-22: Waterloo
  - December 5-6: Denison
  - December 12-13: Ames and Live Webinar

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Winter Ethics Classes

- Monthly Ethics Classes
- Part 1 - 11:30 AM to 12:30 PM (CST)
- This webinar will provide an understanding of the requirements of Circular 230 (first part of key elements)
  - Topics include: what is ethics, ethical decision making, representation before the IRS, why is circular 230 important, how to keep clients information safe (having a security plan), what are your ethical obligations, return preparation, supervised employees (Notice 2011-6), due diligence and prompt disposition pending matters
  - Publication Cir 230 will need to be download for this class
  - Approved for 1 hour of Ethics CPE (Program # Y7WRM-E-00130-16-O)
  - Approved for 1 hour of Ethics CLE
- Part 2 - 1:00 PM to 2:00 PM (CST) -
  - This webinar will continue to review the requirements of Circular 230. Topics include: conduct standards, contingent fees, return of client records, conflicts of interest, negotiation of checks, competence, procedures to ensure compliance, requirements of written advice and sanctions for violation of the regulations. Publication Cir 230 will need to be download for this class.
  - Approved for 1 hour of Ethics CPE (Program # Y7WRM-E-00131-16-O)
  - Approved for 1 hour of Ethics CLE

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Form 8867 Due Diligence Seminar

- Form 8867 Due Diligence Webinar December 14, 2016
  - What information must you have in your files
  - What questions do you need to ask and what explanations or information do you need to share with your client
  - Tax Season 2017 will require "Due Diligence" for not only the Earned Income Tax Credit, but also the Child Tax Credit and the American Opportunity Tax Credit
  - Be prepared to address the new requirements this coming tax season to be in compliance with the due diligence requirements and avoid a $505.00 penalty for each return
- We will also review:
  - Form 8867
  - Provide tips for the "interview"
  - Review the Child Tax Credit, American Opportunity Credit and the Tie breaker rules which you are now required to explain to your clients in certain circumstances

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Winter Ethics Classes

- These ethics webinars will be offered on the following dates:
- December 16
- December 19

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The Scoop

- Throughout the filing season two Scoops will be held on Scoop Dates
  - 8:00 – 8:30 am Central time
  - 12:00 – 12:30 Central time
- This assists with accommodating our west coast practitioners
- The same information will be shared at both sessions
- You have the option of registering for whatever session suits your schedule
- https://www.calt.iastate.edu/calendar-node-field-seminar-date/month

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Future Scoop Dates

- December 14, 2016
- http://www.calt.iastate.edu/calendar-node-field-seminar-date/month

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