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**TAX TUNE-UP**

2017 is more than half gone. This is a good time to ask yourself, "How am I doing?" Are you safe to presume things will be similar to 2016? There is still plenty of time left in the tax year to enact plans which will affect your overall tax situation. Starting or increasing contributions to a variety of retirement plans or health benefit plans can dramatically reduce your tax burden. Charitable donations and many available tax credits could also save you significant money when we file your tax return early in 2018.

## Health Savings Account (HSA)

Health Savings Accounts have been getting more attention lately as Congress and the Trump administration work to replace Obamacare. These accounts allow you to set aside tax-free contributions to pay for qualified medical expenses. In some cases your employer will also contribute to the account. You should consult with your employer to see if they make these contributions.

Many people have no idea when to use these tax-advantaged accounts—and that could hurt their retirement.

Nearly half of HSA users didn't know they can invest the money in their own account.

Additionally, many holders didn't know that HSAs offer triple tax advantages.

First, contributions are tax deductible. Second, those contributions can be invested and grow tax-free. Third, withdrawals aren't taxed as long as you use them for qualified medical expenses, such as doctor's visits, prescription drugs and dental care.

The main requirement with an HSA is that you must have a high-deductible health plan. Such a plan means you'll have to pay a deductible of at least \$1,300 for individual coverage and \$2,600 for

families this year. The maximum 2017 out-of-pocket costs for these plans are \$6,550 for individuals and \$13,100 for families. But, not every high-deductible plan makes people eligible for an HSA. The confusion about high-deductible plans can make it harder for people to embrace HSAs.

HSAs can be a powerful retirement savings vehicle. Estimates show that a 65-year-old couple retiring in 2016 would need roughly \$260,000 to cover health-

care costs during retirement. If you have 20 years of retirement, that's roughly \$1,083 per month. Contributing early and up to the limits, an HSA could cover that cost completely tax-free.

Additionally, if you're healthy enough to not have many health care costs in retirement, you can withdraw the money from your HSA without penalty and use it for anything you want when you are age 65 or older. However, you will pay income taxes on withdrawals if you don't use it for health care.



## Exceptions To The 10% IRA Early Withdrawal Penalty

Withdrawals from Individual Retirement Accounts (IRA) prior to age 59½ trigger a 10% early withdrawal penalty. However, there are several exceptions if you meet certain circumstances or spend the funds on specific purchases. These exceptions only apply to the 10% penalty. All distributions are subject to ordinary taxes.

(\$20,000 for couples) to buy or build a first home without penalty.

**Disability**  
People with severe physical or mental disabilities who are no longer able to work can take IRA distributions without penalty if their physician signs off on the severity of the condition.

**Military Service**  
Members of the military reserves who take IRA distributions during a period of active duty of more than 179 days are exempt from the 10% penalty.

**Medical Expenses**  
IRA distributions used to pay medical expenses that are not reimbursed by health insurance and exceed 10% of your adjusted gross income.

**Health Insurance**  
If you lose your job and collect unemployment benefits for 12 consecutive weeks, you can take penalty free distributions to pay for health insurance for yourself and your family.

**College Costs**  
Distributions to pay tuition, related fees and room & board for at least half time students will qualify for exemption from the 10% penalty.

**First Home Purchase**  
You can withdraw up to \$10,000

There Are Several Exceptions Regarding Early IRA Withdrawal Penalties



### INSIDE THIS ISSUE OF TAX NEWS & TIPS

- Tax Refund Options.....2
- Ask Me About?.....2
- Myths vs. Truths.....2
- Is It A Business Or Hobby? ..... 3
- Tax Tips For You... Now! ..... 4
- Tax Year Calendar.....4



**Do you travel for your job? Does your employer reimburse you?**

**Are you thinking of taking a distribution from an IRA or 401k? Are you older than 59½?**

- Do you have stocks or mutual funds that you are planning to sell that have greatly increased in value? Have you owned those assets longer than one year?
- Are you planning on retiring and collecting social security before the current full retirement age of 66?
- Starting distributions from a retirement plan? Lump-sum distribution possibilities? What are the tax consequences?
- Does your employer offer a medical saving plan? What should you know?

### Summer Vacations Are Ending For Most Students

There are still some tax planning and savings ideas available now that many student summer jobs are coming to a conclusion. One such idea is the opportunity for contributions to be made to a Roth IRA on behalf of a working child or grandchild. You are able to contribute up to \$5,500 in 2017, but not more than the child's earnings to the child's



Roth IRA. All of the earnings from the Roth accumulate tax-free. Any contributions that you make to a Roth on behalf of your child or grandchild will count towards the annual \$14,000 gift tax exclusion (\$28,000 if you are married). All distributions after age 59 ½ are non-taxable. Contributions can be withdrawn tax-free at any time. **Ask me for more details.**

### Social Security Beneficiaries May Get Biggest Increase In 6 Years

Social Security beneficiaries are projected to receive a 2.2% cost-of-living increase next year, the most since 2011. That would be about \$30 a month for the average retired worker. This is a relative bonanza compared to the 0.3% adjustment for this year and the unchanged benefits in 2016. The cost of living adjustments have been low because of unusually weak inflation in recent years. Social Security officials will release the official cost-of-living increase for Social Security recipients in October.

### Tax Reform Update

Despite efforts by White House officials to overhaul tax laws with ambitious reform, a comprehensive bill is unlikely to be enacted before year end. Other initiatives such as a replacement of the Affordable Care Act (ACA) seemingly will be tackled before any focus is turned towards tax reform. Some elements contained in the ACA repeal/replace/overhaul efforts could have direct effects on tax law. Any legislative proposals will encounter strong opposition. Temporary tax cuts seem much more plausible at this point than complete tax law reform. I hope to be able to give clearer direction as we move towards year end.

**TRUTH vs MYTH**

- Myth:** I don't have to claim income that I receive in cash.
- Truth:** All income, no matter the amount received must be reported on your tax return. The lack of a "paper" trail for the income like a check, 1099 or W2 does not exempt the payment as income.
- Myth:** I get to deduct the cost of clothing that I buy to wear to work.
- Truth:** Mostly untrue! The only type of clothing for which one may take a deduction is clothing that is specifically required by your employer and is not suitable to wear outside of work.

- Myth:** I can claim a charitable deduction for money and clothing given to my neighbor that is out of work.
- Truth:** Helping the needy is an admirable gesture; however, only contributions made to recognized charitable organizations will qualify as a charitable deduction on your tax return.
- Myth:** Married couples must file a joint tax return with their spouse.
- Truth:** Although married filing jointly generally provides the greatest tax savings to a couple, a married couple may file as married filing separately or even as head of household. Every situation is different, particularly in community property states.

**Call me to explain your particular situation.**

### Form 1040 – Tax Rules by Age

- **Age 13** – Cannot claim child care credit for children age 13 or older.
- **Age 17** – Cannot claim \$1,000 child tax credit for children age 17 or older.
- **Age 19** – Exemption for dependent children who are not full time students expires. (Certain income levels still qualify)
- **Age 24** – Exemption for children who are full-time students expires.
- **Age 25** – Taxpayers with no children qualify for the Earned Income Credit.
- **Age 50** – Eligible for catch-up contributions to IRAs, Simple-IRAs, 401(k), 403(b) and 457 plans.
- **Age 55** – Eligible for penalty-free withdrawal from employer plan (but **not** an IRA) if separated from service.
- **Age 59 ½** – Penalty for early withdrawal from retirement accounts expires.
- **Age 65** – Taxpayers with no children no longer qualify for Earned Income Credit.
- **Age 65** – Eligible for Credit for the Elderly.
- **Age 70 ½** – Contributions no longer allowed to traditional IRAs.
- **Age 70 ½** – Required Minimum Distributions (RMDs) from retirement plans (other than Roth IRAs) must begin.

### Tax Refund Options

You don't have to settle for boring old refund checks. Although the Treasury issues millions of refund checks each year, receiving a paper refund check is generally the slowest method of receiving your refund and also comes with the possibility of being lost or stolen. Direct deposit of your refund into your checking, savings, brokerage, or IRA account is available. Your refund may also be split into any amount for deposit into up to three different accounts. You don't need a bank account

in order to receive a direct deposit. You can deposit your refund directly on to most prepaid debit cards. A fourth option is to use your tax refund up to \$5,000 to buy U.S. Savings Bonds. Finally, you may apply your refund to next year's taxes.

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## Is It A Business? Or Is It A Hobby?

You think you have a business, but what does the IRS say? Why is this even an issue?

With a hobby, you can deduct your hobby expenses, but you can't deduct more than you earned. You can't claim a hobby loss on your tax return. That's the hobby loss rule – and the rule is, there's no such thing as a hobby loss, at least on your tax return.

You can have negative business income though, which can offset other taxable income. So it can be tempting to try to pass a hobby off as a business. That's why the IRS looks carefully at whether you have a true business or only a hobby.

### So how does the IRS determine if the hobby could be a business?

The IRS has a list of factors for

determining whether your pastime is more business than hobby. Here are the most common factors:

Do you carry on the activity in a businesslike manner?

Do the time and effort you put into the activity indicate that you intend to make it profitable?

Do you depend on the income from the activity for your livelihood? Are your losses due to

circumstances beyond your control, or are they normal in the startup phase of your type of business?

Do you change your methods of operation in an attempt to improve profitability?

Do you, or your advisors, have the knowledge needed to carry on the activity as a successful business?

Were you successful in making a profit in similar activities in the past?

Does the activity make a profit in some years? If so, how much?

Can you expect to make a future profit from the appreciation of the assets used in the activity?

The IRS assumes that an activity is for-profit if it makes a profit in at least three of the last five tax years, including the current year. (If you're breeding, showing, training or racing horses, that range is two of the last seven years.)



### > "Tax Tips" from Page 4

size of its battery. If you buy a Toyota Prius with its traditional hybrid powertrain, you can't get the credit, but if you buy the plug-in Toyota Prius Prime you can get a credit. The credit is only available on new vehicles that come from the factory as electric vehicles, and that are predominately used in the United States. Pre-owned or vehicles that have been converted from gasoline to electricity are not eligible.

The federal electric car tax credit is only available in the year that you place the car in service, and you can't carry the credit from year-to-year. It will only pay for any federal tax you owe, so if your tax liability is \$2,000 for the tax year in which you purchased the car, you can only take a \$2,000 credit. Any remaining amounts cannot be carried over into future years.

**Extensions Expire October 15.** A few of you have not filed for 2015. Please make every effort to find remaining missing forms or information. We have little time remaining to file your return. Contact me as soon as possible.

## What Do Others Claim?

The IRS publishes data on our tax returns each year. How do your itemized deductions stack up against other filers? The chart below compares several categories of write-offs claimed on Schedule A by filers in various income levels using 2015 tax return data.

Adjusted Gross Income	Taxable Income	Medical Expenses Deduction	Taxes Paid Deduction	Interest Deduction	Charitable Contributions	Total Itemized Deductions
Under \$15,000	\$2,568	\$9,210	\$3,667	\$6,397	\$1,533	\$15,624
\$15,000 to \$30,000	\$9,340	\$8,646	\$5,497	\$6,571	\$2,483	\$17,826
\$30,000 to \$50,000	\$21,741	\$8,761	\$4,026	\$6,357	\$2,812	\$16,026
\$50,000 to \$100,000	\$48,362	\$9,426	\$6,323	\$7,382	\$3,244	\$19,050
\$100,000 to \$200,000	\$102,480	\$11,305	\$11,052	\$8,905	\$4,155	\$25,300
\$200,000 to \$250,000	\$177,355	\$17,625	\$17,711	\$11,370	\$5,779	\$35,369
Over \$250,000	\$599,755	\$37,032	\$51,906	\$16,580	\$21,769	\$81,394

Keep in mind that only about 30% of all tax filers itemize their deductions. The majority of filers opt for the standard deduction. **The medical expense deduction is the average for those few filers that actually claimed this write-off.**





### Debt Cancelled By Lender?

According to the IRS, nearly any debt you owe that is canceled, forgiven or discharged becomes taxable income to you. You'll receive a Form 1099-C, "Cancellation of Debt," from the lender that forgave the debt. Common examples of when you might receive a Form 1099-C include forgiveness of credit card debt, repossession, foreclosure, return of property to a lender, abandonment of property, or the modification of a loan on your principal residence.

Even if you receive a Form 1099-C from a lender, you still may be able to avoid taxation on the forgiveness of a debt. If your debt was discharged in a Title 11 bankruptcy proceeding, such as a Chapter 7 or Chapter 13 case,

you're not responsible for taxes on that debt. If you can demonstrate to the IRS that you were insolvent at the time the debt was cancelled, you can similarly avoid taxes on all or part of that debt. Certain other types of debt, including qualified farm indebtedness and qualified real property business indebtedness, can also avoid taxation in the event of cancellation. These exceptions are federal return laws only. Some states have different exceptions that would affect your state tax return filings. Very complicated stuff... **Call me!**

# DEBT



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#### Your Tax Calendar

- Sep 15** 3rd quarter estimated tax payments due.
- Sep 15** Deadline for extended returns for Corporation, Partnerships and Fiduciaries.
- Oct 1** Deadline to establish a Simple IRA for self-employed or small businesses.
- Oct 16** Extended 2016 Returns due.
- Dec 31** Last chance for deductions for 2017.
- Jan 16** (2018) 4th quarter estimated tax payment due.

*Anytime you have any questions, don't hesitate to call me. I am here for you!*

## Tax Tips For You... Now!

✓ **Mileage Deductions For 2017.** Standard mileage rate drops to 53.5 cents per mile, down from 54 cents for 2016. The rate for medical and moving mileage drops to 17 cents per mile, down from 19 cents. The charitable mileage rate remains at 14 cents per mile.

✓ **Can You Make the Electric Car Tax Credit Work For You?** You've heard the talk of battery-electric cars or plug-in hybrids, you've also heard talk of the federal tax credit that you can get when you buy an alternative fuel vehicle. In many cases that's true, but how do you know if the

car you bought is eligible, and how do you take advantage of the credit?

Most car advertisements will claim that the vehicle is eligible for a tax credit of up to \$7,500, but in reality it's not that simple.

**How Much Can You Deduct?**  
The federal electric car tax credit is only available on certain electric and plug-in hybrid vehicles,

and the maximum amount available on any vehicle is based on the capacity of its battery pack.



While all battery-electric vehicles presently available for sale are eligible for the full amount, not all plug-in hybrids are.

The credit is only available for electric vehicles that can be charged from an external source, regardless of the  
**See "Tax Tips" on Page 3 >**

**How Do You Know If The Car You Bought Is Eligible For Federal Tax Credits?**