Tax Topics

by Robert D Flach
45-year veteran tax professional and
the internet's "Wandering Tax Pro" and "The Tax Professional"

Fall 2017

MY BEST TAX ADVICE

My name is Robert D Flach. I have been preparing 1040s for individuals in all walks of life since February of 1972. And I write extensively about federal income tax planning and preparation, mostly for the average taxpayer.

As a veteran tax professional and author I have often been asked over the years by friends, family, clients, readers, and cocktail party guests, "What is your best tax advice? I have given it much thought and perhaps the best piece of tax advice I can give anyone is **DO NOT ACCEPT TAX ADVICE FROM ANYONE OTHER THAN A PROFESSIONAL TAX PREPARER**.

Don't listen to a broker, a banker, an insurance salesman, or your Uncle Charlie!

You wouldn't ask your butcher for a medical opinion, so why would you listen to tax advice from your doctor?

Over the years clients have come to me wanting to claim the strangest things – telling me "my neighbor" or "a guy I ride in to work with on the train" said it was deductible. And it seems that just about every workplace has a resident self-proclaimed "tax pro".

Many people in the "financial industry" may be experts in their particular field, but know absolutely nothing at all about federal or state income taxes. Well maybe not nothing. They may have a little knowledge about taxes – but in this case a little knowledge can truly be dangerous.

I am sure for the most part those who give you free tax advice are doing so out of a genuine desire to help you, and sincerely think they know what they are talking about. But there are also those out there who are only interested in making a commission by selling you an annuity or other investment and give you false tax advice to try to convince you to give them your money.

When you are given advice from a so-called financial professional always consider the source. Remember, an insurance broker is a salesman, as is a stock broker and, to a degree, a banker. They make their money by selling you something. So take anything they tell you regarding taxes with several grains of salt.

And also beware of advice you hear on tv or the radio or in a print or online newspaper, newsletter, magazine, or blog. Here, too, you must consider the source.

If you are given any tax advice or information by any non-tax person, hear any tax advice or information on a television or radio program, or read any tax advice or information in a print newspaper, newsletter, magazine, or online be sure to check it out with your own tax professional before taking any action.

YEAR-END TAX PLANNING

It's that time of year again to talk about year-end tax planning.

Once the ball drops on One Time Square on New Year's Eve and 2018 is rung in there is very little that you can do to reduce your 2017 tax liability. But there is much that can be done during the last 2 months of the year to make sure you pay the absolute least amount of federal and state tax possible.

Here are some important points to keep in mind when developing a year-end plan –

• There are no year-end tax planning strategies that apply to all taxpayers in all cases. Year-end transactions must be based on the specific facts and circumstances of your individual situation.

• Your first criteria for evaluating any proposed financial transaction should always be economic. Tax considerations should come second.

• When preparing your tax returns you are often given choices on how to treat a specific situation or item. If you find yourself faced with choices you should review each option and do separate tax calculations to see which one will result in the lowest tax.

• Consider the state and local tax consequences of potential year-end transactions. And be aware of how transactions will affect your exposure to the Alternative Minimum Tax (AMT). While a year-end strategy may reduce your "regular" federal income tax, it may end up costing you additional state income taxes or make you fall victim to AMT.

• And perhaps most important, do not take any action on year-end strategies without first discussing them with your tax professional.

At the beginning of November you should sit down with paper and pencil and add up your taxable income from all sources and allowable deductions for the first 10 months of 2017. Next estimate the income and deductions you anticipate for the last 2 months. Using your 2016 return as a guide, you want to prepare a "projected" 2017 tax return. Once you have completed your projection you can determine what moves to make during November and December to reduce your 2017 tax liability to the minimum.

The November issue of my newsletter ROBERT D FLACH'S 1040 INSIGHTS, which shares my insights on tax deductions, credits, strategies, and issues based on 45 years in "the business", discusses in detail a variety of tax-saving year-end tax planning ideas, strategies and techniques. It also includes a compilation of what is new in taxes for 2017 and helpful worksheets.

A one-year (5-issue) subscription to the newsletter is **only $11.95** delivered as a pdf email attachment. A print edition sent via postal mail is available for **only $17.95**. One tip from an issue could return the cost of a subscription many times over.

Mention TAX TOPICS when ordering and I will send you the May, July and September 2017 issues as a bonus – so you will receive 8 issues instead of 5.

Or you can order just the November special year-end tax planning issue as an email pdf attachment for only $3.00.

Send your check or money order payable to **TAXES AND ACCOUNTING, INC**, and your email or postal address, to –

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ROBERT D FLACH'S 1040 INSIGHTS
POST OFFICE BOX A
HAWLEY PA 18428

OPEN A ROTH ACCOUNT FOR YOUR CHILDREN

Will your son or daughter have an after-school job this fall? You should consider opening up a Roth IRA account for him or her.

You can contribute 100% of your child's earnings to the account, up to a maximum of $5,500. If your son earns $2,400 this year you can contribute $2,400 to a Roth IRA for him. If he earns $6,000 you can contribute $5,500.

There is nothing in the tax code that says that the money deposited in an IRA for your son or daughter has to come from the child's funds.

There is no tax deduction for contributing to a Roth IRA, but most teenagers don't need the deduction. Qualified distributions from a Roth will be exempt from federal, and probably state, income tax (assuming, of course, that the idiots in Congress don't change the law in the future).

You can use a Roth IRA to encourage your children to work or to save. If your son earns $3,000 in a part-time job, open a Roth IRA for him. Or, if your daughter agrees to put $1,000 of her salary from a part-time job in a Roth, match it and put in another $1,000.

If you put the maximum into a Roth each year for your 16-year-old from 2017 through 2022, when he/she will turn 21, and no other contributions are ever made, the account could grow to a truly tidy sum (in 6 figures) by the time the child turns 65!

A warning - there exists a potential problem with opening a Roth account for a child. Once the child reaches the "age of majority," usually 18, he/she will have full access to all the funds and can "take the money and run."

ARE YOU DEDUCTING THE CORRECT AMOUNT OF MORTGAGE INTEREST?

In my opinion, the area of the Tax Code where proper documentation and strict adherence to the law is perhaps the most overlooked (or actually ignored) is the deduction for mortgage interest – both on Schedule A and Form 6251.

"Qualified residence interest" on debt secured by a residence, aka mortgage interest, that is paid on your primary and secondary residences may be deductible on Schedule A. But just how much can you deduct? It depends.

There are three types of qualified residence interest debt -

1) Grandfathered debt – debt acquired on or before October 13, 1987, that was secured by a main residence or a qualified second home. It does matter what the proceeds of the loan were used for, as long as the debt was secured by the property. The interest deduction is not limited. Interest on grandfathered debt is deductible in full as mortgage interest.

2) Acquisition debt - debt acquired after October 13, 1987, that was used to buy, build, or substantially improve a main residence or a qualified second home. A "substantial improvement" is one that adds value to the home, prolongs the home's useful life, or adapts the home to new uses. You can deduct the interest on up to $1 Million in principal ($500,000 if Married Filing Separately). Qualified acquisition debt cannot exceed the cost of the home and any substantial improvements.

3) Home equity debt – debt acquired after October 13, 1987, that is secured by a main residence or a qualified second home that is not used to buy, build, or substantially improve the property. There is no restriction or limitation on what the money can be used for; you can use it to buy a car, to pay for college, or to pay down credit card balances. You can deduct the interest on up to $100,000 ($50,000 if married filing separately).

Only grandfathered debt interest and acquisition debt interest is deductible in calculating the Alternative Minimum Tax (AMT). Home equity debt interest is NOT deductible.

Taxpayers are required to keep separate track of acquisition debt and home equity debt, to make sure that the deduction on Schedule A does not include interest on debt principal that exceed the statutory maximums, and to determine what interest deduction to add back on Form 6251 when calculating Alternative Minimum Taxable Income. However, I firmly believe that 99.5% of taxpayers do not do this. I do not know of any taxpayer who does. And I expect that the majority of tax preparers do not do this for their taxpayer clients.

I have created a MORTGAGE INTEREST GUIDE. In it I explain just about everything you need to know about deducting qualified residence interest on your Form 1040. It includes two worksheets – one for Acquisition Debt Activity and one for Home Equity Debt activity – and a detailed example of how to use the worksheets.

My MORTGAGE INTEREST GUIDE is **only $2.00** delivered as a pdf email attachment - or $3,00 for a print version sent via postal mail. Order your copy by sending your check of money order payable to **TAXES AND ACCOUNTING, INC**, and your email or postal address, to **-**

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FLEXIBLE SPENDING ACCOUNTS

For many employers the fall is time for "open enrollment" for various employee benefits, including dependent care and health care "flexible spending accounts" (FSA). If your employer offers an FSA you should consider participating – you can realize substantial tax savings from such a plan.

Participants in an employer-sponsored dependent care and health care FSA can set aside a specific dollar amount of their salary each year to pay for qualifying child-care or medical expenses during the year. The maximum amount that can be set aside for a dependent care plan is $5,000. The maximum amount that an employee can contribute to a health care FSA for 2017 is $2,600. There is no change anticipated for 2018; the maximum employee contribution should remain at $2,600.

Monies set aside in a flexible spending account are considered “pre-tax” for both federal income tax and FICA (Social Security and Medicare) tax purposes. If your annual salary is $50,000 and you set aside, and spend, $5,000 in an FSA, the federal wages reported in Box 1 on your Form W-2, as well as the Social Security and Medicare wages, will be $45,000. If you are in the 25% bracket, this $5,000 will save you $1,633 in federal income and FICA taxes.

A pre-tax contribution to a dependent care FSA will generally provide a greater tax benefit than claiming the Child and Dependent Care Credit – especially for those in the 25% and higher brackets. The maximum credit allowed for such a taxpayer is $600 for one qualifying child or $1,200 for more than one qualifying child.

Medical expenses are deductible as an Itemized Deduction on Schedule A only to the extent that they exceed 7 1/2% of AGI. Medical expenses paid through a pre-tax health care FSA are fully deductible from gross income.

The savings does not end there. Employee contributions to an FSA will reduce Adjusted Gross Income and may therefore increase deductions and credits that are affected by AGI (such as medical and miscellaneous expenses on Schedule A). See my posting on “The Most Important Number on Your Tax Return”. Plus many states also treat FSA contributions as “pre-tax”, so you may save state income tax as well. Unfortunately, New Jersey does not treat contributions to either type of FSA as being “pre-tax”.

An FSA is a “use it or lose it” plan. If the amount of qualifying child-care or medical expenses paid by an employee-participant during the year is less than the amount that has been set aside in the plan the employee loses the excess. For example, if Mary Mom has set aside $5,000 of her salary in her employer’s dependent care FSA for 2018, but pays only $4,000 in qualifying child care expenses during the year, she loses $1,000 in wages! The $1,000 cannot be carried forward to the next plan year. So if you are a participant in a dependent care FSA and you currently have an unspent balance in your “account” make sure you spend that balance before year-end so you do not have to forfeit any of your salary.

There is an exception for a medical expense FSA. If the plan allows, participating employees have until March 15th of the next year to submit expenses to the plan. For example, if the above example was for a medical FSA instead of a dependent care FSA Mary would have until March 15, 2018 to incur and submit up to $1,000.00 of medical expenses, which would be applied against the $5,000 set aside for 2017.

Only medical expenses that are deductible on Schedule A can be paid or reimbursed by a health care FSA.

If (1) you are married, (2) both you and your spouse are eligible to participate in an employer-sponsored FSA, and (3) only one of you will earn wages that exceed the Social Security wage base ($127,200 for 2017), the spouse with the salary that is less than the Social Security wage base should claim as much of the couple’s combined FSA contribution as possible.

John Q Taxpayer will earn $130,000 in 2017 and wife Jane Q will earn $40,000. Both are eligible to participate in an FSA. They decide to set aside $5,000 for medical expenses for tax year 2017.

If Jane has the entire $5,000 taken from her salary, the couple will save an additional $310 in total taxes ($5,000 x 6.2% Social Security portion of FICA tax). Because John’s salary, even after the deducting the possible $5,000 FSA contribution, exceeds the $102,000 Social Security wage base, he will not realize any Social Security tax savings by contributing to his employer’s medical FSA.

*Keep up-to-date on federal taxes by becoming a regular visitor to my popular tax blog **THE WANDERING TAX PRO**. You can “subscribe” to this blog and receive new posts in your email inbox.*

Every Monday I post WHAT’S THE BUZZ – links to and commentary on online posts and articles on important tax issues.

ABOUT THE AUTHOR – ROBERT D FLACH

Robert D Flach, a transplant from Jersey City NJ to rural Northeast PA, has been preparing 1040s for individuals in all walks of life since 1972. He is "winding down" his tax practice and no longer accepts new clients.

In his 45 years of preparing individual income tax returns he has never used flawed and expensive tax preparation software to prepare a Form 1040. One of the last of the dinosaurs, he prepares about 250 sets of returns every year manually.

Robert is a great fan of the Broadway musical theatre and for a brief time earlier in his life he produced musicals and plays locally in Hudson County. Once the tax filing season ends he enjoys travel, domestic and international, via all methods – car, bus, plane, ship and train (not necessarily in that order) – and has become known as "The Wandering Tax Pro".

He is neither a registered Democrat nor a registered Republican, but believes that current President Donald Trump is dangerous, deplorable, incompetent, unconcerned, unfit, and truly mentally unstable and must be removed from office as soon as possible. He feels strongly that anyone who cares about the future of America - Republican, Democrat, conservative, or liberal - has a patriotic duty to vocally and aggressively oppose and denounce Trump.

*Robert has been writing the popular tax planning and preparation blog THE WANDERING TAX PRO (**http://wanderingtaxpro.blogspot.com**) since the summer of 2001, inspired by a workshop he attended at the National Association of Tax Professionals' National Conference. He also writes the tax blog THE TAX PROFESSIONAL (**http://thetaxprofessional.blogspot.com**).*

*He is the creator and author the websites A TAX PROFESSIONAL FOR TAX REFORM (**http://taxprosfortaxreform-com.webs.com**) and FIND A TAX PROFESSIONAL (**http://www.findataxprofessional.com**), and the monthly anti-Trump online political newsletter LIBERTY TIMES (**http://denouncetrump.blogspot.com**).*

He has been a member of the National Association of Tax Professionals for over 30 years, and often writes for the Association's TAXPRO JOURNAL as well as the newsletter of the New Jersey state chapter. He has also written for the membership newsletter of the National Society of Tax Professionals.

He has created and compiled several packages of forms, schedules and worksheets and special reports and guides on tax planning and preparation for the average taxpayer.

*Robert is available to write articles and columns for websites and portals and print or email newsletters, on general tax topics, or specifically for your individual audience. Go to **http://robertdflach.blogspot.com**, and check out his AMAZON.COM Author Page at **http://amazon.com/author/robertflach** for samples of his writing.*

ROBERT D FLACH – TAX EXPERT
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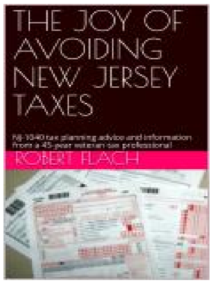
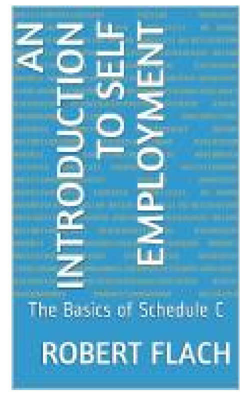


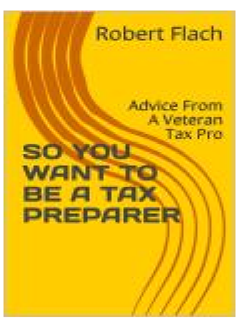
You can now purchase my book ***THE JOY OF AVOIDING NEW JERSEY TAXES*** from AMAZON.COM to read as an e-book on Kindle FOR $9.99. I share my knowledge and experience from 45 years as a professional tax preparer to help you to learn how to pay the absolute least amount of NJ Gross Income Tax possible.

This is the only book I know of that deals exclusively with tax planning for and preparation of NJ state income taxes



I have also converted my book ***AN INTRODUCTION TO SELF-EMPLOYMENT: THE BASICS OF SCHEDULE C*** to e-book format. It is available from AMAZON.COM for $8.99.

Are you thinking about starting a business – either full-time or part-time? Or will you be starting a business in the near future? This book is an extensive "must-have" guide for the newly self-employed sole proprietor who will be reporting business income and expenses on Schedule C, and also a good source of information and advice for the already existing business. It covers a wide range of topics related to tax planning and preparation for Schedule C filers.



And finally, there is ***SO YOU WANT TO BE A TAX PREPARER***, available at AMAZON.COM for $5.99.

I love my profession, and share my advice and comments on the tax preparation business for those who are thinking about becoming a paid tax preparer. This book can also provide help to tax preparers who would like to expand their practice. The APPENDIX includes copies of a Code of Ethics, Standards of Professional Conduct, an Engagement Letter and the Tax Professional's Online Resource Guide.

The first two books each have a compilation of forms, schedules and worksheets that are not included in the Kindle e-book version. I will email the compilation to those who purchase this version. Email **rdftaxpro@yahoo.com**, with KINDLE EBOOK WORKSHEETS in the subject line, and proof or confirmation of purchase "attached", and I will send you the appropriate forms, schedules and worksheets compilation as a "word document" email attachment.

To order any or all of these e-books go to my AMAZON.COM "Author Page" –

http://amazon.com/author/robertflach

For pdf and print editions go to –

http://robertdflach.blogspot.com

L O I S

Lots Of Interesting Stuff

LOIS (Lots of Interesting Stuff) is my new bi-monthly "e-newsletter" with, as the title suggests, lots of interesting stuff. While I talk each issue about a tax topic, this newsletter will cover a multitude of topics – including entertainment, popular culture, politics, and travel.

Each issue will contain –

- ✓ BOBSERVATIONS – my observations on popular culture and life in general.
- ✓ IF YOU ASK ME – my thoughts on important issues.
- ✓ SURFIN' USA – links to and descriptions of helpful and interesting websites.
- ✓ TAXING TALK – a discussion of federal tax issues.
- ✓ THINGS NO ONE EVER TOLD YOU – stuff you probably didn't know.
- ✓ TRAVELIN' MAN – tales of my past and present wanderings.
- ✓ WORKS FOR ME! – stuff I have come across that save time, money, and effort.
- ✓ And other interesting "stuff".

As I said, this is an "e-newsletter", and will only be available in pdf format. Each issue will be delivered as an email attachment. There is no print version available.

An annual subscription to LOIS is **only $7.95!** I will send you a copy of the premiere issue for **only $1.00!**

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