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Tax Tips and Highlights for 2016-17

Payroll Tax Issues

In November 2016, you should have received “Your Year 2017 Federal Tax Deposit Requirements” from the IRS, your annual Unemployment Compensation Tax Rate Notice for 2017, and notification from the state if you are required to file unemployment forms and taxes electronically. These notices should be forwarded to your payroll preparer, and a copy to us.

Although the Federal minimum wage is currently \$7.25 per hour, certain states increase their minimum wage even more. Florida minimum wage will increase to \$8.10 per hour as of January 1, 2017 for hourly employees, and tipped employees will increase to \$5.08 per hour, even though the Federal minimum wage for tipped employees is \$2.13 per hour.

The taxable wage base for Social Security in 2016 was \$118,500 and will increase to \$127,200 for 2017, making the maximum social security tax \$7,886.40 (6.2% for each Employer and Employee). Medicare wages are taxed at 1.45% with no limit. Wages paid to a son or daughter under the age of 18 are exempt from social security and FUTA taxes. **Bonus checks** are considered earned income and are subject to payroll taxes, as well as **per diem** expense reimbursements. The IRS requires employers to track expense reimbursements in excess of federal per diem rates. For annual wages over \$200,000, the employer must withhold an additional 0.9% of Medicare tax.

IRS maintains a zero tolerance for incorrect W-2s and 1099s. A \$50 penalty per incorrect form could be assessed against employers whose forms have mismatched names and social security numbers. You can verify up to five names and numbers by calling the SSA at 1-800-772-6270 or visiting their website at www.ssa.gov/employer for larger groups.

Employee versus Independent Contractor

Under common-law rules, an individual generally is an employee if the company he works for has the right to control and direct him regarding the job he is to do and how he is to do it. Otherwise, he is an independent contractor. Any individual independent contractor receiving compensation of \$600 or more for the year must be issued a 1099-MISC. In addition, ALL attorneys who received ANY amount of payment must be issued a 1099-MISC, as well as anyone you pay Rent to. **Corporate tax returns now have a Y/N question to answer whether or not 1099s were required and filed. A penalty of \$250 per form is assessed, if not filed.**

EXTENDED Code Section 179 expensing

As of 12/18/15 and retroactive, the maximum annual expensing amount is \$500,000, for total annual purchases not exceeding \$2,000,000, indexed for inflation. Bonus depreciation of 50% was also extended for 2016-2017, then drops to 40% for 2018 and 30% for 2019.

Company Provided Vehicles

Employees and owners are taxed for the personal use of any employer provided vehicle. Specifically, their gross income on Form W-2 is increased to the extent the fair market value of this benefit exceeds the amount paid, if any, by them. This fringe benefit is subject to payroll taxes and should be withheld from the employee's salary by year-end.

2017 Standard Mileage Rates

For the business use of a car, van or truck use 53.5 cents per mile (54 cents in 2016). When computing deductible medical or moving expenses, use 17 cents per mile (19 cents in 2016). You may also deduct 14 cents per mile when providing services to a charitable organization (no change from 2016).

Qualified Pension Plan Contribution Limits for 2016 and 2017

There are several employer-sponsored tax-deferred retirement plans that were affected by 2001 legislation, all of which have increased contribution limits. The most common is the 401(k) having a contribution limit of \$18,000 for 2016 and 2017. Many of the plans (401(k), 403b, 457) also have “catch-up” contributions for employees age 50 or older, remaining at \$6,000.

Personal dependency exemption (Pde) and annual gift exclusion

The Pde for 2016 is \$4,050 and will remain unchanged for 2017. The annual gift exclusion for 2016 is \$14,000 and will remain unchanged for 2017. In addition, the lifetime exemption of \$5.25 million is adjusted annually for inflation, bringing 2017's exemption to \$5,490,000.

Please keep in mind that we've described only highlights and some of the changes in the tax rules. There are many more questions and opportunities for proper tax planning. Please give us a call on how you may be affected by these important tax issues.

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