

NEWS BRIEF

Fall/Winter 2016

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Year-End Tax Planning for Individuals

By Cliff Acheson

2015 and 2016 have been years of significant change in tax legislation and IRS rules. Implementing year-end tax strategies to take advantage of these changes presents unique challenges and opportunities. Some tax breaks are expiring and some have been made permanent. To assist with your 2016 year-end tax planning, we have provided a few strategies to minimize your tax burden:

General Timing Strategies. Taxpayers generally have a better handle on their income and deductions for the entire year as they move closer to the end of the year. Initiating traditional techniques designed to accelerate deductions and delay income or vice versa, depending upon circumstances for the next year, can yield substantial tax savings.

Tax Rate Brackets. The top tax rate bracket for 2016 is 39.6%. If you have reached the threshold for net investment income tax, an additional 3.8% tax may be assessed on certain types of income. If you have the option of spreading out your income over 2016–2017 to stay under the top rates or grouping similar categories of net investment income activity, you may be able to lower your tax bill.

Capital Gains and Dividends. Tax rates range from 0% to 20% depending on your ordinary tax rate. Large gains can push you into a higher bracket for both ordinary and capital gains rates. You may want to consider selling some lower-performing investments to offset these gains as well as up to \$3,000 of ordinary income.

Deduction Phaseouts. Many deductions are phased out at specific adjusted gross income levels. You may be able to take full advantage of deductions and reduce your tax liability in one year by moving some income to another year.

Life Events. Tax savings are not the only consideration when deciding to retire, get married, or have children, but the proper timing of these events can minimize your tax burden. If you had any life changes during the year, you may need to make changes to your withholdings or estimated taxes. In addition, the timing of first-time required minimum distributions from retirement accounts should be carefully considered.

Gift and Estate Taxes. For 2016, the annual gift tax exclusion is \$14,000 per donee. The estate tax exemption for 2016 is \$5,450,000 for federal and \$4,187,500 for NYS. If you think your estate may be approaching or exceeding these limits, thorough estate planning can help ease the tax burden.

Energy Credits. Through the end of 2016, you may be able to claim a credit for 10% of the cost of qualified energy efficiency improvements and residential energy property costs, subject to an overall credit limit of \$500. The credit for 30% of the costs on qualified solar electric and water heaters has been extended through December 31, 2021, giving you additional time to take full advantage of these types of energy improvements.

Affordable Care Act. The individual shared responsibility payment for taxpayers without health coverage continues to be in effect. Open enrollment for coverage through the Marketplace has closed for 2016, but some qualifying life events may allow for special enrollment provisions. Taxpayers who are age 65 or older may want to consider accelerating medical costs into 2016 if they want to itemize deductions, since the floor for deductible expenses rises from 7.5% to 10% for these individuals in 2017. Participants in health flexible spending arrangements may contribute up to \$2,550 in 2016.

Year-End Tax Planning for Businesses

By Elizabeth Dunnick

At the end of 2015, the Protecting Americans from Tax Hikes Act (PATH Act) made many business tax provisions permanent, which makes for more certainty as businesses conduct tax planning at the end of this year. A few incentives are set to expire at the end of 2019, and a few will expire at the end of 2016, unless extended by Congress. Here are some highlights:

Permanent Extensions

Code Section 179 Expensing

Section 179 allows for expensing qualified business equipment property when placed in service. The property can be new or used. Certain real property also qualifies and no longer has a separate limit. The annual expensing limit was permanently set to \$500,000, with a purchase limit before phaseout of \$2 million. Both limits are to be indexed annually for inflation. Since January 1, 2016, air conditioning and heating units are now eligible for Section 179 expensing.

Research Credit

The credit is available for qualified research and development costs. Businesses with annual gross receipts not exceeding \$50 million may be able to offset their alternative minimum tax (AMT) with the credit. Certain start-up companies with annual gross receipts under \$5 million may be able to claim the credit against payroll tax liabilities.

Set to Expire Year-End 2019

Bonus Depreciation

50% bonus depreciation can be taken on qualifying new equipment property placed in service during the year. Bonus depreciation is often used when the Section 179 deduction is depleted. The percentage of depreciation allowed is set to decrease to 40% in 2018 and 30% in 2019.

Work Opportunity Tax Credit

This credit is available to employers who hire individuals from certain targeted groups. A new targeted group is individuals hired on or after January 1, 2016, who were unemployed for at least 27 weeks prior to hire.

Set to Expire Year-End 2016

Energy-Efficient Commercial Building Deduction

This deduction is generally available to building owners or lessees who install qualifying systems that reduce a building's total energy cost by at least 50%. The general deduction is worth \$1.80 per square foot. A lesser deduction may be available for reductions achieved below 50%.

Other considerations for your year-end tax planning might include the revised De Minimis Safe Harbor for expensing purchases under a certain threshold, provisions of the Affordable Care Act, and planning for retirement contributions.

Do You Need to File Form 1099?

By Jacqui Durling

Form 1099 is an information return to be filed by self-employed individuals and small businesses annually with the IRS. There are multiple types of the form, but the most common are 1099-INT and 1099-MISC. Please see the guidelines below to help determine if you should issue a 1099 to certain individuals. For any payee whom you are required to file a 1099 for, you should request and keep on file form W-9. The W-9 contains all of the necessary information to complete the 1099 correctly. You can obtain copies of the W-9 directly from the IRS website, www.irs.gov. You should obtain a completed W-9 prior to paying a service provider for services performed.

Form 1099-MISC should be filed for each person or business you have paid any of the following:

- \$600 or more in rent
- \$600 or more in services (including parts and materials)
- \$600 or more in prizes and awards
- \$600 or more in other income payments
- \$600 or more to an attorney, whether s/he is incorporated or not
- \$10 or more in royalties

Form 1099-INT should be filed for each person or business you have paid \$600 or more interest in the course of your trade or business. Some payments are not required to be reported on Form 1099, although they may be taxable to the recipient. These generally include:

- Payments to a corporation (unless paid to an incorporated attorney, they are reportable)
- Payments for merchandise, telephone, freight, storage, and other similar items
- Payments of rent to real estate agents
- Reimbursements for business travel expenses or payments of business travel allowances
- Payments to a tax-exempt organization

As part of your annual income tax reporting to the IRS, you must answer questions regarding your requirements to file Form 1099 and state if you indeed did file the required forms. The penalties for filing late or not filing the required forms can add up quickly. The penalties listed below are per information form—this means if you were required to file 15 forms, each of those penalties would be multiplied by 15.

- \$50 per information return if correctly filed within 30 days of the due date
- \$100 per information return if correctly filed more than 30 days after the deadline but prior to August 1
- \$260 per information return if correctly filed after August 1
- \$260 per information return if you did not file required returns

We encourage you to review your cash disbursements for the year and determine your filing requirements. The deadline to issue forms to recipients is January 31, 2017. All 1099-MISC forms that contain non-employee compensation payments in Box 7 have a new filing deadline for 2017 and must have all copies filed with the government on or before January 31, 2017.

If you would like us to work with you to prepare these returns, please contact our office. Information should be to our office no later than the week of January 16, 2017, to ensure timely preparation and filing.



Updates to FLSA Overtime Eligibility and NYS Minimum Wage

By Jacqui Durling

The U.S. Department of Labor is implementing an updated rule regarding white-collar employees' exemptions from overtime eligibility. The new rules take effect December 1, 2016, and can mean major changes for your business. The regulations determine whether a white-collar employee is exempt from FLSA's minimum wage and overtime pay protections.

First, it is important to determine whether your employee meets the qualifications to be considered an exempt employee, meaning she is exempt from overtime. Generally speaking, employees are exempt if: 1) they are paid a predetermined and fixed salary, 2) they are paid more than the minimum weekly salary level under the FLSA, and 3) they primarily perform executive, administrative, or professional duties as determined by the Department of Labor's duties test. If all three of the above qualifications are met, your employee is considered exempt from overtime pay.



The major aspect of these qualifications to be changing effective December 1, 2016, is the minimum weekly salary. Currently, to be considered exempt from overtime pay protections, a salaried employee must be paid \$455 weekly or \$23,660 annually. Under the new ruling, those amounts will increase to \$913 per week or \$47,476 annually. If you currently have a salaried employee who is making less than the new regulated amounts of \$913 per week or \$47,476 annually, you will have to consider a couple of different scenarios to meet the new requirements.

One option is to increase the employee's weekly/annual salary to meet the new minimum requirements. This may not be a viable option for some employers, however, especially if the gap between the current salary and the new requirements is too large. The other option is to switch the employee to a non-exempt status and begin paying her on an hourly basis with overtime pay eligibility. This will require additional record-keeping on the employer's part to keep track of the employee's hours and make sure she is being paid for all hours worked.

Tracking the number of hours worked can get murky, especially if you are moving someone from a previous exempt position to an hourly basis. Any work the employee is performing for your business must be documented and paid accordingly. This means if she has access to your networks outside of the office and checks email or performs other duties outside of normal business hours, then she will be eligible for overtime pay for any hours that exceed a normal 40-hour work week. The burden of keeping track of these hours and maintaining the records falls on the employer.

You may want to consider the duties and tasks that the employee is being asked to accomplish. If you know she will continue to be expected to perform tasks outside of normal business hours and will most likely work more than 40 hours per week, consider the additional expense of overtime pay, and that may close the gap a bit more when deciding to switch from exempt to non-exempt.

Another unspoken consideration is the morale of the employee. Some employees attach a sense of importance or status level to an exempt position. If an employee is suddenly switched to an hourly status and the employer starts to track all of her hours, it may be upsetting to her and feel like a downgrade from her previous classification. It is something to consider as you are making your decisions and relaying those decisions to your employees.

Finally, the New York State (NYS) minimum wage will increase effective December 31, 2016, to \$9.70 per hour. Please keep this increase in mind as you are planning employee compensations for the upcoming year. For future consideration, the NYS minimum wage will increase effective December 31, 2017, to \$10.40 per hour.

Ultimately, the FLSA is set up for the protection of employees. As you consider all of your options going forward, keep your employees in mind and what is most fair to them, while at the same time what your business can support.

For further assistance, please feel welcome to contact our office. Our dedicated staff is ready to assist in any way possible.

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Sciabba Walker Celebrates Its 40th Anniversary

By Jennifer Cremerius

Our firm was founded in 1976 by two dynamic accounting professionals, Andy Sciabba and Ken Walker. They saw the unique potential for growth within the Ithaca community, and they recognized that a locally owned and operated firm would better serve local companies and businesses. Their vision was to establish a professional firm dedicated to client service, technical expertise, and community involvement.

To celebrate our 40th anniversary, we wanted to honor Andy and Ken's commitment to community with a gift that residents and visitors alike would be able to enjoy for years to come. With that in mind, we decided to donate a custom-made bench to the Ithaca Children's Garden.



The one-of-a-kind bench, designed and constructed by local artist Durand Van Doren, is a bright Sciabba Walker blue, and the design of back of the bench is reminiscent of waterfalls—a nod to the gorges that have become synonymous with Ithaca.

“By providing a bench to the Ithaca Children's Garden, we are able to show our appreciation of our clients and the community at large,” said managing partner Dave Iles. “We are proud to support the Ithaca Children's Garden and to contribute to its positive presence in the community.” We dedicated the bench on a beautiful September day with firm staff members and Garden board members in attendance.

From our firm's very beginning, we believed that contributing time and talent to local projects and organizations not only makes for a better community, but for a better firm. We started with the mission of developing a staff of generous, well-rounded professionals who put their work within a greater context, and we maintain that same philosophy and culture today. We look to the future with optimism and excitement as the community continues to grow and the needs of our clients evolve.

We are grateful to work with individuals, organizations, and businesses that inspire us to continue to develop professionally and personally. To all of our clients, new and old, and to all of our friends and neighbors, thank you for your support. Here's to another 40 years!