THE VOS VOICE

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"Because Accounting Matters And We Know It"

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Inside This Issue

Here are some of the key tax-related deadlines affecting businesses and other employers during the fourth quarter of 2017. Keep in mind that this list isn't all-inclusive, so there may be additional deadlines that apply to you. Contact us to ensure you're meeting all applicable deadlines and to learn more about the filing requirements.

October 16

- If a calendar-year C corporation that filed an automatic six-month extension:
- File a 2016 income tax return (Form 1120) and pay any tax, interest and penalties due.
- Make contributions for 2016 to certain employer-sponsored retirement plans.

October 31

- Report income tax withholding and FICA taxes for third quarter 2017 (Form 941) and pay any tax due. (See exception below.)

November 13

- Report income tax withholding and FICA taxes for third quarter 2017 (Form 941), if you deposited on time and in full all of the associated taxes due.

December 15

- If a calendar-year C corporation, pay the fourth installment of 2017 estimated income taxes.

> *"With the new day comes new strengths and new thoughts"*
> *~Eleanor Roosevelt*

Investors: Beware of the Wash Sale Rule

A tried-and-true tax-saving strategy for investors is to sell assets at a loss to offset gains that have been realized during the year. So if you've cashed in some big gains this year, consider looking for unrealized losses in your portfolio and selling those investments before year end to offset your gains. This can reduce your 2017 tax liability.

But what if you expect an investment that would produce a loss if sold now to not only recover but thrive in the future? Or perhaps you simply want to minimize the impact on your asset allocation. You might think you can simply sell the investment at a loss and then immediately buy it back. Not so fast: You need to beware of the wash sale rule.

The rule up close

The wash sale rule prevents you from taking a loss on a security if you buy a substantially identical security (or an option to buy such a security) within 30 days before or after you sell the security that created the loss. You can recognize the loss only when you sell the replacement security.

Keep in mind that the rule applies even if you repurchase the security in a tax-advantaged retirement account, such as a traditional or Roth IRA.

Achieving your goals

Fortunately, there are ways to avoid the wash sale rule and still achieve your goals:

- Sell the security and immediately buy shares of a security of a different company in the same industry or shares in a mutual fund that holds securities much like the ones you sold.

(see Investors: Beware of the Wash Sale continued on page 2)

INVESTORS: BEWARE OF THE WASH SALE RULE

(Continued from page 1)

- Sell the security and wait 31 days to repurchase the same security.

- Before selling the security, purchase additional shares of that security equal to the number you want to sell at a loss. Then wait 31 days to sell the original portion.

If you have a bond that would generate a loss if sold, you can do a bond swap, where you sell a bond, take a loss and then immediately buy another bond of similar quality and duration from a different issuer. Generally, the wash sale rule doesn't apply because the bonds aren't considered substantially identical. Thus, you can achieve a tax loss with virtually no change in economic position.

For more ideas on saving taxes on your investments, please contact us.

WHY YOU SHOULD BOOST YOUR 401(K) CONTRIBUTION RATE BETWEEN NOW AND YEAR END

One important step to both reducing taxes and saving for retirement is to contribute to a tax-advantaged retirement plan. If your employer offers a 401(k) plan, contributing to that is likely your best first step.

If you're not already contributing the maximum allowed, consider increasing your contribution rate between now and year end. Because of tax-deferred compounding (tax-free in the case of Roth accounts), boosting contributions sooner rather than later can have a significant impact on the size of your nest egg at retirement.

Traditional 401(k)

A traditional 401(k) offers many benefits:

- Contributions are pretax, reducing your modified adjusted gross income (MAGI), which can also help you reduce or avoid exposure to the 3.8% net investment income tax.
- Plan assets can grow tax-deferred — meaning you pay no income tax until you take distributions.
- Your employer may match some or all of your contributions pretax.

For 2017, you can contribute up to $18,000. So if your current contribution rate will leave you short of the limit, try to increase your contribution rate through the end of the year to get as close to that limit as you can afford. Keep in mind that your paycheck will be reduced by less than the dollar amount of the contribution, because the contributions are pre-tax so income tax isn't withheld.

If you'll be age 50 or older by December 31, you can also make "catch-up" contributions (up to $6,000 for 2017). So if you didn't contribute much when you were younger, this may allow you to partially make up for lost time. Even if you did make significant contributions before age 50, catch-up contributions can still be beneficial, allowing you to further leverage the power of tax-deferred compounding.

Roth 401(k)

Employers can include a Roth option in their 401(k) plans. If your plan offers this, you can designate some or all of your contribution as Roth contributions. While such contributions don't reduce your current MAGI, qualified distributions will be tax-free.

Roth 401(k) contributions may be especially beneficial for higher-income earners, because they don't have the option to contribute to a Roth IRA. On the other hand, if you expect your tax rate to be lower in retirement, you may be better off sticking with traditional 401(k) contributions.

Finally, keep in mind that any employer matches to Roth 401(k) contributions will be pretax and go into your traditional 401(k) account.

How much and which type

Have questions about how much to contribute or the best mix between traditional and Roth contributions? Contact us. We'd be pleased to discuss the tax and retirement-saving considerations with you.

"BUNCHING" MEDICAL EXPENSES WILL BE A TAX-SMART STRATEGY FOR MANY IN 2017

Various limits apply to most tax deductions, and one type of limit is a "floor," which means expenses are deductible only if they exceed that floor (typically a specific percentage of your income). One example is the medical expense deduction.

Because it can be difficult to exceed the floor, a common strategy is to "bunch" deductible medical expenses into a particular year where possible. If tax reform legislation is signed into law, it might be especially beneficial to bunch deductible medical expenses into 2017.

The deduction

Medical expenses that aren't reimbursable by insurance or paid through a tax-advantaged account (such as a Health Savings Account or Flexible Spending Account) may be deductible — but only to the extent that they exceed 10% of your adjusted gross income. The 10% floor applies for both regular tax and alternative minimum tax (AMT) purposes.

Beginning in 2017, even taxpayers age 65 and older are subject to the 10% floor. Previously, they generally enjoyed a 7.5% floor, except for AMT purposes, where they were also subject to the 10% floor.

Benefits of bunching

By bunching nonurgent medical procedures and other controllable expenses into alternating years, you may increase your ability to exceed the applicable floor. Controllable expenses might include prescription drugs, eyeglasses and contact lenses, hearing aids, dental work, and elective surgery.

Normally, if it's looking like you're close to exceeding the floor in the current year, it's tax-smart to consider accelerating controllable expenses into the current year. But if you're far from exceeding the floor, the traditional strategy is, to the extent possible (without harming your or your family's health), to put off medical expenses until the next year, in case you have enough expenses in that year to exceed the floor.

However, in 2017, sticking to these traditional strategies might not make sense.

Possible elimination?

The nine-page "Unified Framework for Fixing Our Broken Tax Code" that President Trump and congressional Republicans released on September 27 proposes a variety of tax law changes. Among other things, the framework calls for increasing the standard deduction and eliminating "most" itemized deductions. While the framework doesn't specifically mention the medical expense deduction, the only itemized deductions that it specifically states would be retained are those for home mortgage interest and charitable contributions.

If an elimination of the medical expense deduction were to go into effect in 2018, there could be a significant incentive for individuals to bunch deductible medical expenses into 2017. Even if you're not close to exceeding the floor now, it could be beneficial to see if you can accelerate enough qualifying expense into 2017 to do so.

Keep in mind that tax reform legislation must be drafted, passed by the House and Senate and signed by the President. It's still uncertain exactly what will be included in any legislation, whether it will be passed and signed into law this year, and, if it is, when its provisions would go into effect. For more information on how to bunch deductions, exactly what expenses are deductible, or other ways tax reform legislation could affect your 2017 year-end tax planning, please contact us.

"When you can't change the direction of the wind, adjust your sails"
~H. Jackson Brown, Jr.

~ I R S Corner

IRS OFFERS HELP TO HURRICANE VICTIMS: A RECAP OF KEY TAX RELIEF PROVISIONS AVAILABLE FOLLOWING HARVEY, IRMA AND MARIA

IR-2017-160, Sept. 26, 2017

WASHINGTON – The Internal Revenue Service today offered a rundown of key tax relief that has been made available to victims of Hurricanes Harvey, Irma and Maria.

In general, the IRS is now providing relief to individuals and businesses anywhere in Florida, Georgia, Puerto Rico and the Virgin Islands, as well as parts of Texas. Because this relief postpones various tax deadlines, individuals and businesses will have until Jan. 31, 2018 to file any returns and pay any taxes due. Those eligible for the extra time include:

- Individual filers whose tax-filing extension runs out on Oct. 16, 2017. Because tax payments related to these 2016 returns were originally due on April 18, 2017, those payments are not eligible for this relief.
- Business filers, such as calendar-year partnerships, whose extensions ran out on Sept. 15, 2017.
- Quarterly estimated tax payments due on Sept. 15, 2017 and Jan. 16, 2018.
- Quarterly payroll and excise tax returns due on Oct. 31, 2017.
- Calendar-year tax-exempt organizations whose 2016 extensions run out on Nov. 15, 2017.

A variety of other returns, payments and tax-related actions also qualify for additional time. See the disaster relief page on IRS.gov for details on these and offer relief the IRS has offered since these hurricanes began hitting in August. The IRS also continues to closely monitor the aftermath of these storms, and additional updates for taxpayers and tax professionals will be posted to IRS.gov

Besides extra time to file and pay, the IRS offers other special assistance to disaster-area taxpayers. This includes the following:

- Special relief helps employer-sponsored leave-based donation programs aid hurricane victims. Under these programs, employees may forgo their vacation, sick or personal leave in exchange for cash payments the employer makes, before Jan. 1, 2019, to charities providing relief. Donated leave is not included in the employee's income, and employers may deduct these cash payments to charity as a business expense.
- 401(k)s and similar employer-sponsored retirement plans can make loans and hardship distributions to hurricane victims and members of their families. Under this broad-based relief, a retirement plan can allow a hurricane victim to take a hardship distribution or borrow up to the specified statutory limits from the victim's retirement plan. It also means that a person who lives outside the disaster area can take out a retirement plan loan or hardship distribution and use it to assist a son, daughter, parent, grandparent or dependent who lived or worked in the disaster area. Hardship withdrawals must be made by Jan. 31, 2018.
- The IRS is waiving late-deposit penalties for federal payroll and excise tax deposits normally due during the first 15 days of the disaster period. Check out the disaster relief page for the time periods that apply to each jurisdiction.
- Individuals and businesses who suffered uninsured or unreimbursed disaster-related losses can choose to claim them on either the return for the year the loss occurred (in this instance, the 2017 return normally filed next year), or the return for the prior year (2016). See Publication 547 for details.
- The IRS is waiving the usual fees and expediting requests for copies of previously filed tax returns for disaster area taxpayers. This relief can be especially helpful to anyone whose copies of these documents were lost or destroyed by the hurricane.
- If disaster-area taxpayers are contacted by the IRS on a collection or examination matter, they should be sure to explain how the disaster impacts them so that the IRS can provide appropriate consideration to their case.

Further details on these and other relief provisions can be found on the agency's disaster relief page, as well as on the special pages for Hurricane Harvey and Hurricanes Irma and Maria. For information on disaster recovery, visit disasterassistance.gov