THE KT ADDITION

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SUMMER 2017 Friends *for* Life. VOLUME 23 ISSUE 2

What's Inside:

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DOES THE R&D TAX CREDIT SUIT YOUR COMPANY?

JOEI TIEMAN, CPA, ASSOCIATE

Does your company design, develop, or improve products and processes? If it does, the federal research and development (R&D) tax credit may be an option to consider that could generate great tax savings!

Whether you are businesses such as construction, engineering, manufacturing, agricultural production, or wine making, for example, you may be doing some form of qualified research and development (R&D). The R&D tax credit was designed to encourage new business innovations that lead to company growth and stimulate the economy.

A common misperception is that the research needs to create something "new to the world." That is not true as you just need to produce something (or create a process) that "is new to you." Another misperception is that the research needs to be done for your own business. On the contrary, engineers and contractors can take the credit for research work done on a construction project.

Congress has passed laws to improve the criteria so more businesses are able to take advantage of the R&D tax credit.

The two most recent changes are (1)

Joei Tieman
CPA, Associate

small business start-ups have the option to offset the credit towards payroll tax liabilities and (2) Congress has eliminated the alternative minimum tax (AMT) restrictions (the credit did not previously offset AMT tax liability). The expenses that qualify for the credit are research wages, supplies, and contract research. To qualify as a research activity, it first needs to be new to the business and not just a change to a current product or process. Second, the research must have been performed to answer an uncertainty. The credit is then offset against federal income tax liability, or for start-up businesses, the credit offsets payroll tax liabilities.

For example, an engineering firm discovered qualified R&D expenses of

(*Does the R&D Tax Credit Suit Your Company?* continued on page 2)

(***Does the R&D Tax Credit Suit Your Company?*** *continued from page 1)*

$910,000 in 2016 that produced a net federal R&D tax credit of $60,000. This is a dollar for dollar offset against the individual income tax for those shareholders!

As are all tax related topics, there is a great deal to learn as well as options to consider for each business. There are specific requirements to meet in order to qualify for the R&D tax credit.

Contact your KTLLP CPA to discuss the possibility of qualifying for the R&D credit to ensure you are not missing out on this great opportunity.

TRUMP PROPOSES BIG TAX CUTS

KEVIN SICKELS, CPA, PARTNER, KETEL THORSTENSON, LLP

On Wednesday, April 26th, President Trump's administration revealed the core principles of his tax reform plan. This proposal still has a long way to go before it becomes the law of the land and the chance of it passing through Congress as presented is very small. The proposal is probably better described as a "first offer."

Here is a summary of some of the key points for individuals:

- Pass-Through business income (S Corporations, Partnerships, & LLCs) would be taxed at 15%, down from a maximum of 43.4%.
- The current seven tax brackets would be reduced to three brackets: 10%, 15%, and 35%. This means the highest individual rate drops from 39.6% to 35%. However, where these brackets start and stop was not proposed.
- Double the standard deduction – the 2017 standard deduction is set to be $12,700 for married filing joint – it would increase to $25,400 based on this proposal, which means more income would be free of tax for those who do not otherwise itemize.
- The Alternative Minimum Tax (AMT) would be repealed. This 2nd tax system is impacting more and more individuals each year.
- The 3.8% Net Investment Income Tax (NIIT) would be repealed.
- The estate tax would be repealed (this would mean we would also lose the step-up in basis upon death)
- Some "tax breaks" would be repealed, including the deduction for state and local income/sales taxes. Sacred deductions would be kept, including home mortgage interest, charitable donations, and retirement savings.

Here is a summary of some of the key points for Corporations:

- The top tax rates for corporations would be 15%, down from 35%.

Kevin Sickels
CPA, Partner

- There would be a one-time small repatriation tax to bring home offshore earnings.
- A shift from a worldwide tax system to a territorial one.

There was nothing in the proposal that discussed what revenue raising offset provisions, if any, would be included in order to make the proposal revenue neutral.

The administration has stated that it is determined to get tax reform passed before the end of 2017.

JULY 2017: STATE TAX RETURN FILING DATE CHANGE

Effective July 2017, the filing and payment dates of South Dakota state electronic tax returns are changing. These changes are due to 2017's Senate Bill 36 (SB 36).

The changes made by SB 36 include:

Electronically Filed Returns and Payments

- The filing due date of tax returns has changed to the 20th of the month from the 23rd of the month.
- The payment due date has moved to the 25th of the month from the second to the last business day of the month.

Paper Filed Returns and Payments

- Non-monthly filer: The filing due date and payment due date have both moved to the 20th of the month from the last day of the month.
- Monthly motor fuel paper filer : The filing due date and payment due date have both moved to the 20th of the month from the last day of the month.
- Monthly business tax paper filer: No change. The due date remains the 20th of the month.

	Electronic Filer		Paper Filer**	
Monthly Filer	Process	Due Date	Process	Due Date
	Tax Return Filed	20th of the month	Tax Return Filed	20th of the month
	Payment Received	25th of the month	Payment Received	20th of the month
Non-monthly Filer*	Process	Due Date	Process	Due Date
	Tax Return Filed	20th of the month	Tax Return Filed	20th of the month
	Payment Received	25th of the month	Payment Received	20th of the month

* Non-monthly filers include annual, semi-annual, quarterly, and bi-monthly filers.

** All paper returns must be postmarked by the due date.

Frequently Asked Questions

Question: When do these changes go into effect?

Answer: These changes will begin with tax returns due during the month of July 2017.

Question: What tax returns do these changes affect?

Answer: The due date changes apply to all taxes reported and paid on:

- Sales tax
- Use tax
- Contractor's excise tax
- 911 emergency surcharge
- 911 prepaid wireless
- Motor Fuel tax returns

SOUTH DAKOTA TOURISM TAX

AMANDA DENNIS, ASSOCIATE

Summer is here. Along with the blossoms come all of the different license plates in our area. Tourist season is here and what does that mean to you? Have you ever wondered about the additional tourism tax?

In addition to collecting and remitting state and city sales tax, there is an additional 1.5% tourism sales tax that is imposed for tourism promotion in South Dakota. The tax applies to most any business which primarily earns monies from visitors. There are two categories of businesses subject to this tax.

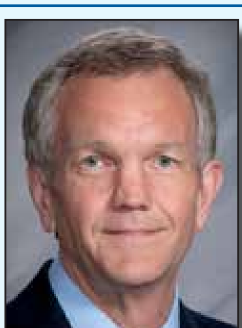
First, there are **year-round** payers which are the following types of businesses: hotels and lodging establishments, campgrounds, motor vehicle rentals (rented for less than 28 days), recreational equipment rentals, recreational services, spectator events, and visitor attractions.

Second, for certain taxpayers, the tourism tax applies only during certain months. These **"visitor-intensive"** businesses are required to collect and remit the additional 1.5% tourism tax only during the months of June, July, August, and September. The applicable businesses are those with 50% or more of their total annual gross receipts occur during those four months. Examples of visitor-intensive businesses include: antique shops, candy stores, rock shops, arts/crafts shops, marinas, jewelry stores, and novelty shops.

To determine if you are subject to collecting and remitting the tourism tax, first pinpoint which category your business falls under---either a year-round tourism business, or possibly a visitor intensive one. Next, if you are not subject to the year-round tax, analyze your gross receipts from June through September. For example, cabin rentals would be subject year-round. An antique shop would be subject only if 50% of the income occurs during June thru September. A confusing factor, a business might think they only have to collect and remit during June thru September

Amanda Dennis
Associate

because that is when most of their business occurs. However, if your business falls under the category of collecting year-round, looking at gross receipts for eligibility determination is not needed. Only if you are a visitor-intensive business are you required to assess your gross receipts to determine eligibility for the four month period. If you need assistance determining if you should be collecting and remitting tourism tax, contact the professionals at Ketel Thorstenson today.



SAVE THE DATE

RETIREMENT OPEN HOUSE

for Pete Bergman

Thursday, October 19 • 3-5 p.m.

810 Quincy St., Rapid City

ESTIMATED TAX PAYMENTS

KRISTAL HAMM, CPA, ASSOCIATE

Some of you are old pros at paying quarterly estimated tax payments and some of you may be wondering if you fall outside of these requirements. Ketel Thorstenson (KTLLP) serves a wide spectrum of clients who annually deal with the nuances of these quarterly filings, which are often necessary to avoid tax penalties.

Estimated tax payments are advanced payments you make to the IRS to fund the tax relating to income flowing to you from a business or large investment. Because this income is not subject to withholding by the payer, as such, you are generally required to calculate (estimate) the tax due and submit it to the US Treasury in four equal installments. For W-2 employees, their federal tax liability is withheld equally throughout the year.

The only reason estimated tax payments would not be equal is if your income fluctuated substantially throughout the year. An example would be the owners of a retailer who loses money for nine months out of the year, but when Christmas season rolls around they make all their income in a short window of time. In this situation, estimates can be submitted based on the annualized net income for the last part of the year.

So now the question is, "do I have to pay estimated tax payments?" The IRS expects taxpayers who owe $1,000 or more for the year to make either quarterly estimated tax payments or to have sufficient withholding, or both. Those required to pay quarterly are usually self-employed whether as a sole proprietor, a partner or as an S-Corporation shareholder. Or they could simply be individuals who did not withhold enough tax against their investment income. Or they could be an employee who simply claimed too many exemptions on his or her W-4. In the last case, rather than paying quarterly taxes, you can submit a new W-4 to your employer so more tax is withheld.

Generally, you can follow the safe harbor rule and pay quarterly installments equal to 100% of the previous tax year's income tax liability. You may need to pay in 110% if your adjusted gross income is greater than $150,000. This allows the taxpayer to avoid the underpayment penalty, even if his or her income is skyrocketing as compared to the prior year. However, you do not have to pay the same amount as last year (safe harbor) if your circumstances have changed and your income is expected to decrease for the current year versus the prior year. You can still avoid penalty as long as tax payments exceed 90% of the current year liability. One funny thing is that the estimates are due on the 15th of the following months; April, June, September, and January. These are not equal quarters, but that has been the law for decades.

Kristal Hamm, CPA, Associate

To calculate an estimated tax payment using the safe harbor rule, simply look at 100 or 110% of last year's total tax liability, subtract your expected withholdings, and divide by (4) four. If your income is decreasing, you should prepare a projection of your tax liability so that you can send in reduced payments. We can assist you with that projection, or you can Google "income tax brackets and the current year" to figure out your current income tax rate. And don't forget self-employment taxes. There is a link on the KTLLP website that provides you with the dates the estimated tax payments are due along with the corresponding payment period. Here is the link: https://ktllp.com/about-us/tax-faqs/

KTLLP would be happy to help you calculate your estimated tax liability for the year, and set up the estimated tax payments. If you have any questions contact the professionals at Ketel Thorstenson.

RULES OF RECORDS RETENTION

By Tami James, Senior Associate, QuickBooks ProAdvisor

Clients often ask how long they need to keep particular records. The answer is not as clear-cut as one may think. In general, the records should be kept for as long as they may be needed for federal and state tax returns or other possible litigation verification.

Records supporting an income or deduction item on a filed tax return need to be kept until the Period of Limitations (period of time in which a return may be amended or a claim for credit or refund may be filed) runs out for the return. (More information may be found in the IRS Publication 583)

Other business and personal records must be kept for a period of time after they are no longer needed. It should be noted that similar documents and records may be subject to different record retention rules. For example: Employee records should typically be kept for seven years. However, for an employee's personnel records, the seven year clock begins ticking after termination. There are many business documents and they are subject to a variety of retention years. Several online websites offer retention guidelines. However, they may not be updated with the most current retention regulations. Please use the table below as a general guideline and contact a Ketel Thorstenson, LLP professional with any questions. A more extensive list may be found on our website at www.KTLLP.com.

For example, a recent IRS audit high priority objective is for S corporation shareholders to prove their stock basis. This could entail keeping records of capital contributions and the related cancelled checks going back literally decades. Be careful what you throw away!!

Fortunately, the IRS allows for the use of electronic storage of records. The storage requirements that apply to hard copy systems apply to the electronic storage system as well. The files and documents must be indexed, stored,

Tami James, Senior Associate, QuickBooks ProAdvisor

preserved, and be retrievable in a legible format. (More information may be found in IRS Revenue Procedure 97-22)

Whether hard copy or electronic – hanging on to unnecessary records will fill up storage and cost money. A records management program, that includes state and federal retention schedules, will help alleviate the excess and maintain control of the records. Contact the professionals at KTLLP with any record retention questions, we are here to help.

SEE RECORDS RETENTION SCHEDULE ON PAGE 7

PLEASE NOTE

The KTLLP Annual Open House is moving from January to October.

SAVE THE DATE - OCTOBER 25, 2018

Ketel Thorstenson, LLP
Certified Public Accountants/Business & Personal Consultants

RECORDS RETENTION SCHEDULE

It is important to hold onto your business records in case of an IRS audit or other examination. Retaining unnecessary records will soon exceed storage space available for most businesses. Therefore, you may wish to establish a retention schedule that takes into account state and federal regulations, as well as industry standards. The retention periods are intended as a general guideline only. If you have any questions about destroying any tax or accounting records, please contact a Ketel Thorstenson, LLP professional.

Document	Retention Period
Accident reports/claims (settled cases)	7 years
Accounts payable ledgers and schedules	7 years
Accounts receivable ledgers and schedules	8 years
Audit reports	Permanently
Bank statements	3 years
Capital stock and bond records	Permanently
Cash books	Permanently
Charts of accounts	Permanently
Checks (canceled checks for important payments, special contracts, purchase of assets, payment of taxes, etc. Checks should be filed with the papers pertaining to the underlying transaction)	Permanently
Checks (canceled except those noted above)	7 years
Contracts and leases (expired)	7 years
Correspondence, general	2 years
Correspondence (legal and tax related)	Permanently
Deeds, mortgages and bills of sale	Permanently
Deposit slips	3 years
Depreciation schedules	Permanently
Employee personnel records (after termination)	7 years
Employee applications	3 years
Expense reports	7 years
Financial statements (year-end)	Permanently

Document	Retention Period
General ledgers, year-end trial balance	Permanently
Insurance policies (expired)	3 years
Insurance records, accident reports, claims, policies, etc	Permanently
Internal audit reports (miscellaneous)	3 years
Inventory records	7 years
Invoices to customers or from vendors	7 years
IRA/Keogh plan contributions, rollovers, transfers, and distributions	Permanently
Minute books of directors, stockholders, bylaws and charter	Permanently
Payroll records, summaries and tax returns	7 years
Petty cash vouchers	3 years
Purchase orders	3 years
Receiving sheets	1 year
Retirement plan records	Permanently
Safety records	6 years
Sales records	7 years
Subsidiary ledgers	7 years
Tax returns, revenue agents' reports, and other documents relating to determination of income tax liability	Permanently
Time cards and daily reports	7 years
Trademark registration, patents and copyrights	Permanently
Trial balances (monthly)	3 years
W-2 Forms	7 years

Visit ktllp.com for a pdf/printable version of the full records retention schedule.

INTERVIEWING BEST PRACTICES

AMANDA DOKTER, PHR, SHRM-CP, HUMAN RESOURCES MANAGER

You've placed the perfect ad, received a flood of resumes, reviewed all of them, narrowed down your applicants to a manageable group, and set up interviews for next week. Now what? Do you just wing it? Ask questions that just come to you? Or do you set time aside to properly prepare for the interviews?

Just like we expect applicants to do their homework and prepare for an interview, so should the hiring manager/team. Being prepared for an interview will not only help you make the right decision, but it can also keep you safe from potential legal action.

Here are some best practices to follow when preparing for your interviews.

Have the right interviewers. Don't have just anyone conduct your interviews. Ask yourself two simple questions, "Who will be making the final decision?" and "Who will be working with the new hire?" If neither of these individuals are in your interview process, they should be. I recommend having the human resources manager, the new hire's proposed supervisor and future co-workers (of a similar skill level) conduct the interviews. This will give you several perspectives: supervisor, legal, and co-worker.

Have a plan. This is important if you are going to have more than one interviewer or conduct more than one interview. First, plan out how long the interview will last. Then decide how many rounds of interviews you are going to do and who will be involved in each round. Lastly, decide who is going to ask which questions; this will help with the flow of the conversation and prevent any awkward pauses.

Have preset questions. If you are going to be interviewing more than one applicant, consistency of interview questions is a must. Take time before the interview to determine what you want to learn from the applicants and what competencies you are looking for. Then design questions that will get you that information. Ask the same questions of all applicants, have them written down, don't rely on your memory.

Have the right location. Ask yourself, is my office the right place to conduct the interview? Will I be distracted by my computer, the work sitting on my desk, or my office phone? The best place to conduct an interview is somewhere where all distractions can be eliminated, so choose a conference room. However, if you have to conduct the interview in your office, make sure to clear your desk, turn your computer monitor off, and put your office phone on do not disturb. One more thing, put your cell phone away.

Have an introduction. The

Amanda Dokter, PHR, SHRM-CP
Human Resources Manager

interview is not just an opportunity for you to learn more about the interviewee, but their opportunity to learn about your organization. So have a short, less than 5 minute, introduction that will inform the interviewee about the organization, the position, and your role. Remember, this is not the time to outline all the expectations of the position, or dive into the history of the organization; spend the time hitting the highlights. If you are going to conduct second round interviews, during that time you can dive a little deeper into the position.

Have a good understanding of the legal stuff. Remember that during the interview process there are topics you want to avoid for legal purposes. The topics to avoid include race, sex, nation of origin, religion, age, disability, genetic information, convictions, and military service. Here are examples of questions to ask and not to ask.

*(**Interviewing Best Practices** continued on page 9)*

(***Interviewing Best Practices*** *continued from page 8)*

	Ask	Don't Ask
Age	Are you old enough to work in this industry? OR Can you supply a copy of your transcripts?	How old are you? OR When did you graduate?
Disability	Can you perform the essential functions of the job with or without accommodation? (Make sure to describe the functions or provide a detailed job description)	Do you have a disability? OR I see you have a limp, are you sure you can do this job?
Race	Avoid any questions during the interview process about race	
Religion	Can you work the required schedule? (Be sure to disclose the work schedule)	What church do you attend? OR I see you are wearing a star of David, are you Jewish?
Sex (Family/Marital Status)	Can you work the required schedule? OR Can you work evenings and weekends? (Be sure to disclose the work schedule)	Are you married? OR Do you plan on having kids? OR How many kids do you have?
Nation of Origin (Citizenship)	If hired, are you able to provide documentation to prove that you are eligible to work in the US?	Are you a US citizen? Or What country are you from?
Military Service	How did your military service prepare you for this job? OR What valuable skills have you learned from your military service?	What type of discharge did you receive? OR Will you miss work to perform military service?
Arrests and Convictions	Have you ever been convicted of a felony? (best to stipulate that a conviction doesn't necessarily bar someone from employment and that only certain felonies will do that, only bar someone from employment if the conviction is job related, and make sure to follow any state laws)	Have you ever been arrested?

Now it's inevitable that an interviewee will disclose some personal information that would fall into one of the above areas. So what do you do? The best thing to do is not pursue the information or make any notes about it. For example, if the applicant mentions they have three kids at home, don't ask them about daycare or what they will do when the kids are out of school. Just stick to your questions and focus on the information that is relevant to the position.

By following these few best practices, not only will your interview process go smoothly, but applicants will be engaged and provided a good experience throughout the process. Just remember, a little planning and preparation can go a long way. Call the HR Team at Ketel Thorstenson with any consultation or HR support needs.

RECORDING BARTERING/TRADING TRANSACTIONS IN QUICKBOOKS

Carrie Neuschwander, CPA, Senior Associate, QuickBooks ProAdvisor

Bartering is the trade of goods or services in exchange for other goods or services. Historically, bartering dates back to around 6000 B.C. and the ancient Mesopotamian tribes. It eventually became popular with the Phoenicians and Babylonians when trading items including weapons, food, spices, and apparently, even human skulls. Bartering has been used by the Europeans in the Middle Ages and the colonial Americans and was used during the Great Depression of the 1930's when Americans often had no money.

Modern bartering can involve elaborate bartering exchanges or just a small business trading goods or services with a customer or vendor. According to the Internal Revenue Code you must include in income the fair market value of goods or services received from bartering. However, at the same time, you can deduct the expense of the good or service you are giving up.

Recording a barter transaction in QuickBooks is a process that requires a few one-time setup steps that can then be used to record any barter or trade transaction you may have with your customers or vendors. Step-by-step instructions (with screen shots) on how to set up the necessary items and record the transactions are located on the KTLLP website. Visit ktllp.com, under the News & Events tab, select KT Addition Newsletter Archives, look for

Carrie Neuschwander, CPA, Senior Associate, QuickBooks ProAdvisor

the Recording Bartering link. If you need assistance or have any questions contact the Ketel Thorstenson QuickBooks ProAdvisor team.

STRATEGIC PLANNING SERIES: WHAT IS THE VALUE OF GOODWILL IN MY COMPANY?

Ericka Heiser, MBA, CVA, Senior Manager

In my article featured in the Fall 2016 KT Addition, I discussed the components of goodwill value. If you recall, they are the assets we can't touch but undeniably generate value. A few examples include:

- •Assembled Workforce
- •Non-Compete Agreements
- •Signed Customer Contracts
- •Location
- •Equipment/Processes
- •Reputation

So, how do we calculate the value of these assets? It is more technical than just a guess. The calculation involves both the Income Approach and Asset Approach.

The Income Approach can be a simple mathematical equation with cash flows as the numerator and a capitalization rate or "risk factor" as the denominator. The assets included in the value derived by employing the Income Approach are

Ericka Heiser
MBA, CVA, Senior Manager

Strategic Planning Series: What is the Value of Goodwill in My Company? continued on page 11)

Strategic Planning Series: What is the Value of Goodwill in My Company? continued from page 10)

anything used to generate cash flows, such as working capital (inventory plus accounts receivable less accounts payable), fixed assets and goodwill (assuming the subject company has goodwill value).

The Asset Approach can simply be the value the tangible assets (the assets that we can touch) would bring in an orderly liquidation (less any debts).

If the Income Approach produces a value greater than the value produced by employing the Asset Approach, the company has goodwill value equal to the difference.

In the example listed below, the value based on the Income Approach is $100,000. This is the value based on cash flows. Meanwhile, the value of the actual tangible assets sold net of any debts is $90,000. Therefore, in this example, the value of goodwill is $10,000. This implies that the cash flows support a value greater than simple liquidation of assets. Moreover, it means that the intangible assets owned by the company (assembled workforce, signed contracts, reputation, etc. as noted above) are needed to produce company cash flows.

Value Based on Income Approach	**$100,000**
Less: Value Based on Asset Approach	**$90,000**
Goodwill Value	**$10,000**

So, how do we know what level of goodwill is normal for a particular company? It depends on the type of business. If we are referring to a small construction company that is awarded jobs based on the bidding process, such a firm usually has very little goodwill value—even if such firm is highly profitable. This is because its next job is not secured because of historical reputation of quality work, but rather because it simply has the lowest bid. In other words, the industry has very low "barriers to entry." For example, a hypothetical buyer of such company would not be any further ahead by buying this going concern business. Rather, he/she could just as easily puchase equipment and start bidding jobs. However, this type of company may have some goodwill because of an assembled workforce.

Another example of a company that would have very little or no goodwill value is a lawn mowing business. Lawn mowing requires no special skills, education or training to perform. Therefore, a hypothetical buyer would only pay for the value of the lawn mower(s) and accessories; however, it would be unlikely if he/she would pay a premium for the business. After all, there is no shortage of lawns to mow.

An example of a business that has a high level of goodwill value would be a "near monopoly" such as Apple. The only way to buy an iPhone or iPad is to buy from Apple. Yes, there are other smart phones available in the market but none are the glorified iPhone. Moreover, if your iTunes playlist is as big as mine, you wouldn't want to start over with your music collection; it is simply cost prohibitive. In other words, I'm stuck. And in other more technical words, Apple has a tremendous level of goodwill because no one else can offer the iPhone:

- The goodwill value of Apple is transferrable, meaning that it does not reside in one person.
- The Apple products and processes are patented.
- The add-on features are Apple specific; they cannot be transferred to a non-Apple device.
- It is an internationally recognized product.
- Almost everyone is a potential Apple customer, meaning the customer pool is seemingly endless.
- Software updates make the devices almost impossible to be obsolete. (Until the next big thing!)

As the worlds' biggest company, it is doubtful anyone could buy the entire Company. But you can buy its shares. The value of goodwill is quantifiable. However, understanding of why an investor would pay a premium for the subject company, like Apple is key.

Do you or your clients have Business Valuation questions or needs? Contact the KTLLP Business Valuation Team.

ROTH IRA – THE RIGHT CHOICE FOR YOU?

Traci Fitting, EA, Manager

As I talk to people about retirement planning and their income taxes, one option that comes up frequently is Roth IRAs. The Roth IRA was established by the Taxpayer Relief Act of 1997. Annually, Congress evaluates the amount a taxpayer can contribute, but the underlying rules governing contributions (monies put in) and distributions (monies pulled out) have remained unchanged.

The maximum Roth contribution that can be made for 2017 is $5,500 for those under age 50. For those 50 and older, the maximum amount is $6,500, due to a special catch-up provision. These amounts are subject to limitations based on income levels. For example, a single individual under 50 years of age can contribute up to $5,500 if her Modified Adjusted Gross Income (MAGI) is under $118,000. If her MAGI falls between $118,001 and $133,000, she can only contribute a percentage of that amount. And once her MAGI reaches $133,000, she is ineligible to contribute at all.

Contributions to a Roth IRA must be made by the due date of the tax return, without regard to any extensions-meaning April 15 Contributions to a Roth IRA are nondeductible. This means they cannot be used to reduce taxable income on your current tax return.

The beauty of the Roth IRA is the potential for nontaxable distributions. If you are 59½ and have had the Roth IRA for at least 5 years, then there is never income tax or penalty on withdrawals. If distributions occur prior to age 59 1/2, you may pay tax and get penalized if you withdraw more than what you originally put in. The good news is that withdrawals from your Roth IRA are considered to be from your contributions first and from your earnings second. As such, there is never income tax or penalty upon withdrawing your original contributions.

Also, you can convert regular IRAs to Roth IRAs at any time without any AGI limitations, but you may have to pay income tax on the conversion. This planning tool is particularly useful for years in which a taxpayer would otherwise have a net operating loss.

Traci Fitting
EA, Manager

But perhaps the best feature of a Roth IRA is that there are no minimum distribution requirements at age 70.5.

Is the Roth IRA the right choice for you? This overview provides the basics as a starting point, but the rules can be quite complex, depending on your tax situation. Please consult one of our tax professionals at Ketel Thorstenson, LLP for further assistance.

FILING REQUIREMENTS WHEN SOMEONE PASSES AWAY

Denise Webster, CPA, PFS, Managing Partner

It can be a sad topic but certainly an important one. I love working with estates and trusts because each has its own unique circumstances, which is intriguing to me. I enjoy assisting people through the various rules and trying to save tax dollars. When preparing these returns, it's all about paying attention to the cut-off periods. Below is a brief review of filing requirements for someone who passes away and defining the language used when preparing tax returns for the demised.

Income Tax

If an individual dies during the year, the personal representative probably needs to file a final individual income tax return, Form 1040. Also, a state tax return may need to be filed depending on what state in which the decedent resided. The income and expense reported on the Form 1040 should be from January 1st, through the date of death. The IRS does not prorate the standard deduction or exemption amount for deceased individuals. Here is an example: Tessa passed away on May 20, 2017 at the age of 55. Her income consisted of: interest income earned through May 20th of \$3,441, rent income of \$5,000, rental expenses of \$1,257 and wages of \$16,875. Her standard deduction is \$6,350 (single) and personal exemption is \$4,050. Tessa did not have enough to itemize her deductions. To decide whether Tessa has a filing requirement, you add up the income \$3,441 + \$5,000 + \$16,875 = \$25,316. Since this amount is greater than the total of the standard deduction of \$6,350 and personal exemption of \$4,050, total \$10,400, Tessa has a filing requirement and her personal representative should file a federal income tax return for Tessa. If Tessa's income would have been below \$10,400, there would not be a filing requirement.

The day after a person dies, a legal entity known as an "estate" is created if the decedent's assets are not titled in a trust. An estate entity is called a fiduciary, which reports income and expenses to the IRS using the date of death as the beginning of the estate period. For tax purposes, the year end of an estate is the month ending before one year after the date of death. For example, if a person dies on June 10, 2017; the start date of the estate would be June 11, 2017, and the year-end date would be May 31, 2018. The filing due date would be 3 1/2 months after the fiscal year-end or September 15, 2018. The estate entity is temporary as it merely assists with liquidating estate assets and/or transferring property to the beneficiaries. When the estate has no more assets or liabilities, it is closed and a final fiduciary income tax return is filed with the IRS.

Denise Webster, CPA, PFS, Managing Partner

Estate Tax

For 2017, an individual could be subject to federal estate tax if their assets are valued at \$5,490,000 at their date of death. The estate tax rate is 40 percent. If the deceased is married when he or she dies, generally all or most of the assets pass to the surviving spouse where a marital deduction decreases the taxable estate to an amount below the \$5,490,000 exemption. As such, generally no estate tax is due when the first spouse dies. Each year the exemption amount is subject to a cost of living increase.

If the decedent is subject to a federal estate tax, there is an estate tax return filing requirement on Form 706, due 9 months after date of death. If the first spouse to die's assets are not greater than the exemption amount of \$5,490,000, you can still file a Form 706 to claim the unused exemption for the

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surviving spouse. This is called "portability". Here's an example: Bob died with assets valued at $4,000,000 at his date of death. The personal representative filed a Form 706, federal estate tax return, for Bob to report the $1,490,000 unused exemption ($5,490,000 - $4,000,000) which can be used by the surviving spouse at her date of death. If the surviving spouse, named Bella, died in 2017, her exemption amount would be $5,490,000 + $1,490,000, total of $6,980,000. If Bella's assets are $7,000,000 at her date of death, she could claim an exemption of $6,980,000 against her total assets for a taxable estate of $20,000, ignoring any deductions for this example.

On the other hand, if Bob would have died a single man with assets worth $6,000,000, he could potentially be subject to an estate tax of $204,000 ($6,000,000 less $5,490,000 exemption X 40% = $204,000). For simplicity, this example ignores any deductions, like debts or estate administration costs. The federal estate tax area is much more complex than these very simple examples. Estate planning is highly recommended if your net worth is close or greater than the exemption amount because of the 40 percent estate tax rate. Don't put your family in a taxable situation if it can be avoided. Call the KTLLP Estate Planning team today.

UNREIMBURSED EMPLOYEE BUSINESS EXPENSES

LINDSEY NOLAN, CPA, ASSOCIATE

You may be able to deduct certain work-related expenses if you meet both requirements of being an employee and you itemize on your tax return. If you incur costs "ordinary and necessary" for your job that are not reimbursed by your employer, keep records to prove the ones you paid and plan to deduct. These expenses are included on Form 2106: Employee Business Expenses, which flows into Schedule A: Itemized Deductions on your Form 1040. Eligible expenses are limited, as they are subject to a 2% floor rule – meaning they are only deductible in the amount that exceeds 2% of your Adjusted Gross Income. Also beware, that if you are paying alternative minimum tax (AMT), then these deductions will not save you any income tax, as they are not deductible for AMT.

Unreimbursed employee business expenses can be combined with other miscellaneous deductions such as tax preparation fees, investment expenses, and safety deposit box expenses to meet this threshold. Some common business expenses that qualify include the following:

- Professional dues, memberships, licenses, subscriptions, and publications
- Cell phone costs at an estimated business use percentage
- Tools and supplies
- Uniforms and safety gear required for your job
  - Any clothing deducted cannot be suitable for everyday wear
- Continuing education if it doesn't qualify you for a new trade
- Union dues
- Job-searching expenses if within the same occupation
- Business liability or malpractice insurance premiums
- Rent paid for business equipment or space
- Parking and toll fees
- Home office expenses if you use part of your home regularly and exclusively for business, you are required to work at home for the convenience of your employer,

Lindsey Nolan
CPA, Associate

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and you do not have an office at another job site
  - A simplified method is available rather than using actual expenses with an indirect allocation
- Overnight business travel away from home, such as transportation and lodging expenses
- Business mileage either using the standard rate or actual expense method
  - Commuting between your home and main workplace is not deductible
- Incidental expenses, such as baggage fees or hotel tips
- Standard meal allowance for overnight business travel
  - "Per diem" rates vary by area, but averages $51/day
- If the above mentioned allowance is not used, you can deduct 50% of all actual business meal and entertainment expenses, regardless of location
  - A bona fide business-related discussion must take place before, during, or after

Please consult with your tax professional at Ketel Thorstenson, LLP if you have questions regarding deductible unreimbursed employee business expenses.

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Brittany McGrady
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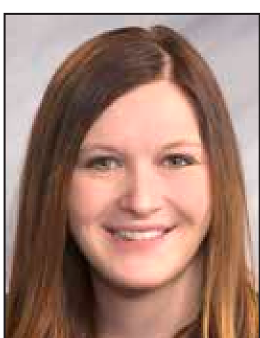

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Associate, Audit Department

SUMMER 2017

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