

# Tax Tidbits



Volume 19, Issue 1

May 2017

## 2017 Tax Reform

In April 2017, the White House issued its outline on tax cuts titled: 2017 Tax Reform for Economic Growth and American



Jobs. The outline is broken into Goals for Tax Reform, Individual Reform and Business Reform and Process.

There are four simple goals – grow the economy and create millions of jobs, simplify our burdensome tax code, provide tax relief to American families, especially middle-income families, and lower the business tax rate from one of the highest in the world to one of the lowest. The first goal almost seems like it should be the last derivative goal through achieving the next three goals, which address tax concerns.

The Individual Reform deals with the tax relief for American families, especially middle-income families. This reform would reduce seven tax brackets to three tax brackets of 10%, 25% and 35%. Even though this brings the top marginal rate down from 39.6% to 35%, there have been no indications of the income brackets assigned to the published tax rates. Additionally, the tax reform calls for a doubling of the standard deduction. For married couples filing joint returns, this would mean an increase from \$12,700 to \$25,400. The third tax reform for individuals would provide tax relief for families with child and dependent care expenses. There has not been a lot

published on the details of this last provision. The Individual Reform effort calls for simplification through elimination of targeted tax breaks for the wealthiest taxpayers. It also mentions specifically to “protect the home ownership and charitable gift tax deductions.” I take this to preserve mortgage interest and property tax deductions, as well as all forms of charitable contributions, both cash and non-cash. The simplification would also call for the repeal of the alternative minimum tax (AMT). This one tax, originally implemented in the mid-60’s, specifically targeted very wealthy taxpayers that successfully avoided paying any tax. Over the last 50 years the basic formula for AMT was not updated to target the taxpayers as intended at the start. Middle class taxpayers now get snagged by this tax and, in spite of its tax revenue generating abilities for the government, it is not operating according to its original intentional design. The tax reform is also calling for a repeal of the “death tax” and the 3.8% net investment income tax.

The Business Reform portion of the Trump Tax Reform states an absolute corporate tax rate of 15%. This is big as the top corporate rate is currently 35%. It should also be noted that the corporate tax rates take a nonlinear approach to the top in that corporate taxable income from \$100,000, but not over \$355,000, is taxed at 39%. The tax plan does not specifically mention pass-through entities; however, when President Trump was a candidate, his tax plan included a provision that would allow owners of pass-through entities to be taxed at

the proposed 15% business rate. If this truly goes into place, the government will have to put in place stop-gap measures to insure that high earners do not “game the system.” The business reform also proposes a one-time tax on trillions of dollars held overseas by corporations avoiding tax by not repatriating the money. The tax rate on such a plan is unspecified in the tax reform, although discussions surrounding the provision include a 10% one-time tax rate payable over 10 years. The Business Reform plan also calls for a territorial tax system to level the playing field for American companies operating overseas and an elimination of tax breaks for special interests – such as elimination of the corporate alternative minimum tax and the IRC section 199 Domestic Production Activities Deduction, as well as, the Work Opportunity Tax Credit.

The Process is supposed to involve a series of listening sessions in May 2017. This will incorporate stakeholders, the House and the Senate to receive input and develop details of a plan that carries out the goals of the Trump Tax Reform.

We will all be watching what develops on this front as we interpret the new laws and see what effects they will have, in general, on our collective situations. The Valicenti Tax Department will be focusing on these new laws and will be offering explanations, as soon as possible, after passage of the tax law.

Paul E. Hornbuckle, CPA  
Vice President of Tax and Business Services

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## Employee or Independent Contractor? Know the Rules

The IRS encourages all businesses and business owners to know the rules when it comes to classifying a worker as an employee or an independent contractor.

An employer must withhold income taxes and pay Social Security, Medicare taxes and unemployment tax on wages paid to an employee. Employers normally do not have to withhold or pay any taxes on payments to independent contractors.

Two key points for small business owners to keep in mind when it comes to classifying workers are as follows:

**1. Control.** The relationship between a worker and a business is important. If the business dictates what work is accomplished, when it will be completed and



directs how it is done, it exerts behavioral control. If the business directs or controls financial and certain relevant aspects of a worker's job, it exercises financial control. This includes the extent of the worker's investment in the facilities or tools used in performing services. Whether the worker is free to seek out other work opportunities can clarify their status. How the business pays the worker, generally a guaranteed wage for an hourly, weekly or other period of time, usually indicates an employee. An independent contractor is often paid by the job performed, which allows the worker to realize a profit or incur a loss.

**2. Relationship.** How the employer and worker perceive their relationship is also important for determining worker status. Written contracts describing the relationship the parties intend to create can be helpful. Whether the business provides the worker with employee-type benefits,

such as insurance, a pension plan, vacation or sick pay, is a factor. The permanency of the relationship is a large factor in determining the status. An independent contractor is usually hired for a specific project or period. The extent to which the worker has unreimbursed business expenses, such as fixed ongoing costs that are incurred whether work is being performed or not, is important in determining the status of a worker.

The IRS can help employers determine the status of their workers by using form Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding. IRS Publication 15-A, Employer's Supplemental Tax Guide, is also an excellent resource.

Amy M. Chacho  
*Business Services/Tax Specialist*

## Protect Your College Graduate with the Right Insurance

College graduation is an exciting time for students and their parents alike. While it's easy to be immersed in graduation parties and focused on first-job jitters, it's a time of major transitions and big decisions and it's essential to prepare graduates for what comes next.

One area new college graduates need to address is insurance. We know insurance can be a confusing topic. We also know that seemingly small missed details can result in very large losses. We want to ensure your college graduate is protected before heading out into the real world, so we have compiled the following pointers.

• **Review your family's current insurance.** The first step when considering insurance for your new graduate is evaluating the coverage you currently have. Make an appointment with your agent, who can advise on whether it's appropriate given the pending changes and whether it will cover your son or daughter.



• **Know the law.** Most states require drivers to have auto insurance and most of those have minimum policy limit requirements. Research the law in your son or daughter's state, or consult with your agent, to make sure they are covered adequately.

• **Read your lease.** Many apartment, condominium and home rental properties require tenants to maintain a certain level of renter's insurance, which covers the contents of the home in the event of a robbery, fire or other loss. Make sure you know the terms of your son or daughter's new lease and insure them accordingly.

• **Don't end up liable.** Any home renter or owner is exposed to liability risk. To ensure there is adequate coverage in the event someone gets injured on your son or daughter's property, speak with your agent about liability insurance.

• **Don't gamble!** Never go without. It's simple – your son or daughter should always have insurance in place. Be sure to discuss with your agent what types they need.

• **Know your company benefits.** Many college graduates move straight into the

workforce and most companies have benefits. Study the company's human resources handbook to learn what benefits are available, when they go into effect and what limitations they pose.

We at Valicenti Insurance Services, Inc., congratulate you on the graduation of your son or daughter! Please contact us at (607) 215-0242 or [info@valicentiins.com](mailto:info@valicentiins.com) with any questions or to request a review of your family's insurance portfolio.

Suzanne M. Valicenti  
*President/CEO*



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## Harvesting Diversification

Investors seeking low cost, low fee, low price and high diversification options have traditionally turned to mutual funds to achieve their goals. However, exchange-traded funds (ETFs) have recently gained massive popularity by matching these needs in a different way. ETFs are traded on exchanges, just like your favorite companies, but rather than being a single company, an ETF holds various companies that you can gain exposure to by simply owning shares in it (like a mutual fund). Each ETF needs to be researched thoroughly before investing. Some fairly universal truths about ETFs can make them more efficient than owning mutual funds, but possibly less efficient than owning individual securities, from a tax standpoint.

When a mutual fund buys and sells a security, it incurs capital gains/losses just like an individual investor. However, rather than paying the tax, the mutual fund passes that realization to individual holders and taxes must be paid by the investor. Unfortunately, mutual funds can only pass on net capital gains, not net capital losses to help you during a downturn. ETFs though, through a complex system known as creation units, very rarely incur capital gains. The creation units that investors own are managed by a market



maker that can exchange units on the market to make the ETF price reflect the actual value of the ETF's holdings. This process is not recognized as a taxable event and investors very rarely receive a capital gains tax burden while holding the security. Buying and selling shares and receiving dividends are the same between mutual funds and ETFs.

In comparison to holding multiple, individual securities, ETFs diminish the investor's ability to strategically harvest gains/losses. If an investor realized a large capital gain this year, held multiple securities and wanted to reduce their tax burden for the year, they could choose to sell securities with losses and keep other gains unrealized. However, since an ETF holds all that volatility in a single security, the available options are all contained in that single asset. If the ETF as a whole appreciated that year, no losses would be available for the investor to harvest.

The decision to invest in a mutual fund, ETF or individual companies should not be based solely on how gains will be taxed, but when creating a road map for your investments, these differences could have a significant impact on your tax considerations. Your portfolio manager can help guide you through this tax harvesting process at the end of the year to maximize your total return.

Matt Melott  
*Security Analyst/Trader*



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## Short Term Rental Considerations

Many individuals are using online applications such as Airbnb, VRBO, Flipkey and several others to advertise and help rent their personal or vacation home. The IRS has special rules for owners of short term rentals. The number of days the property is rented and the number of personal use days plays a big part in what expenses are deductible. Other things to consider are sales and occupancy taxes. Some states, such as New York, may charge sales tax and occupancy tax on short term rentals.

The good news is, if you rent out your house for 14 days or fewer during the year, you don't have to report the rental income on your tax return, regardless of the amount of rent received for those days. You can still deduct all of your property taxes and mortgage interest is deductible on your first and second home, subject to mortgage interest limitations.

If you rent out your house for *more* than 14 days, you will need to report the rental income. Many online application companies will issue a 1099-MISC for the rental income. Rental expenses are deductible, but can get complicated because you need to allocate costs between the time the property is used for personal purposes and the time it is rented.

If you have personal use on the property for more than 14 days or more than 10% of the number of days it is rented, whichever is greater, it is considered a rental not for profit. This means you can deduct rental expenses up to the level of rental income but you cannot deduct losses. The definition of personal use days is fairly broad. They may include any days you or a family member use the house, even if the family member is paying rent. Personal days also include days on which you have donated use of the house, such as to a charity auction or have rented it out for less than fair market value.

If you limit your personal use to 14 days or 10% of the time the vacation home

*See Short Term on Page 4*





## IRS Provides Tips on Determining if it Really is the IRS at Your Door

The Internal Revenue Service (IRS) has created a special new page on IRS.gov to help taxpayers determine if a person visiting their home or place of business claiming to be from the IRS is legitimate or an imposter.

As a result of continuing phone scams and in-person scams taking place across the country, the IRS reminds taxpayers that IRS employees do make official, sometimes unannounced, visits to taxpayers as part of their routine casework. Taxpayers should keep in mind the reasons these visits occur and understand how to verify if it is the IRS knocking at their door.

Visits typically fall into three categories:

1. IRS revenue officers will sometimes make unannounced visits to a taxpayer's home or place of business to discuss taxes owed or tax returns due. Revenue officers are IRS civil enforcement employees whose role involves education,

investigation, and when necessary, appropriate enforcement.

2. IRS revenue agents will sometimes visit a taxpayer who is being audited. That taxpayer would have first been notified by mail about the audit and set an agreed-upon appointment time with the revenue agent. Additionally, after mailing an initial appointment letter to a taxpayer, an auditor may call to confirm and discuss items pertaining to the scheduled audit appointment.

3. IRS criminal investigators may visit a taxpayer's home or place of business unannounced while conducting an investigation. However, these are federal law enforcement agents and they will not demand any sort of payment. Criminal investigators also carry law enforcement credentials, including a badge.

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Vice President of Tax and Business Services

## Short Term

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is rented, it is considered a rental for profit. You can deduct expenses and depending on your income, you may be able to deduct up to \$25,000 in losses each year. Keep in mind that days you spend maintaining or fixing up the property do not count as personal use days. This is why many owners of vacation homes limit their leisure use time and spend more hours maintaining the property.

Rental income is reported on Schedule E, not subject to self-employment tax. However, if you provide substantial services that are primarily for your tenant's convenience, such as regular cleaning, changing linen, providing breakfast or maid service, the IRS treats the rental as a business. This income would be subjected to self-employment tax in addition to income tax.

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Elizabeth A. Zarnoch, EA  
Tax and Accounting Manager

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