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Caring About Your Business... Is Our Business

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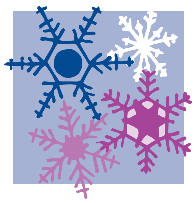
Winter Notes:



Welcome to the winter edition of the newsletter. This issue focuses on key tax law changes, tax breaks for college education, and a return of an old favorite, "All-Star Stocks".

As we head into what promises to be a productive 2017, we are happy to be returning all of our staff professionals – except for one. We are no longer associated with Travis Raml, CPA. However, in addition to Ellen Silverstein, Jeff Linker, and Robin Dowless, we are pleased to be adding Mike Klatzkin, CPA. Mike comes to us with a wealth of public accounting experience in the major practice areas of accounting and taxation, and we're excited to have him aboard.

Additional 2016 Updates:

Just around last New Year's, President Obama signed the PATH Act with provides considerably more legislation and tax savings than the typical tax extender legislation seen in prior years. It made permanent over 20 key tax provisions, including the research tax credit, enhanced Section 179 expensing and the American Opportunity Tax Credit. It also extended other provisions, including bonus depreciation, for five years and provided other extensions for two years.

Eleventh-hour negotiations between the White House and Congress finally reached agreement on the tax bill, impacting nearly all individuals and businesses, across all sectors of the economy. The Path Act of 2015 would end up being the last major tax bill of the Obama administration. As in past years, the IRS conceded that late tax legislation would delay the start of filing season – in that regard, the IRS didn't disappoint.

State and Local Sales Tax Deductions: The election to claim an itemized deduction for state and local general sales taxes, in lieu of deducting state and local income taxes was made permanent. The provision is particularly valuable to taxpayers in states without an income tax.

American Opportunity Tax Credit: The Act makes permanent the American Opportunity Tax Credit (AOTC) which had been slated to expire after 2017. The AOTC is a $2,500 tax credit for college level tuition spending.

Teacher's Classroom Expense Deduction: The Act permanently extends the deduction for elementary and secondary school teachers' classroom expenses in the amount of $250.00. This also includes professional development expenses within the scope of the deduction.

Transit Benefits: For tax years beginning in 2016, the inflation-adjusted monthly exclusion amount for transit passes and van pool benefits will be $255/month, in line with the inflation-adjusted amount for qualified parking.

Mortgage Debt Forgiveness: The Act excludes from income cancellation of mortgage debt on a principal residence of up to $2 million through 2016. Without an extension, debt that is forgiven through a foreclosure, short sale or loan modification could be treated as taxable income.

Mortgage Insurance Premium Deduction: The measure treats mortgage insurance premiums as deductible interest that is qualified residence interest, subject to the AGI phase-out. The Act extends this special treatment through 2016.

Section 179 Expensing: The Act permanently sets the Code Sec. 179 expensing limit at $500,000 and also makes permanent the special rule allowing off the shelf computer software to be treated as Section 179 property.

Section 529 Plans: Under the Act, the purchase of computer equipment and technology with a distribution from a Sec. 529 Plan is permanently considered a qualified expense. This change for computer equipment applies to tax years beginning in 2015.

College Costs: A Primer:

__AOTC:__ The American Opportunity Tax Credit is worth up to $2,500 per student for each of the first four years of college. The student must be enrolled at least half-time at an accredited university. The credit is worth 100% of the first $2,000 you pay for college expenses, plus 25% of the next $2,000, totaling $2,500 (for each of the four years). Money spent on tuition, fees and books count toward the credit. The credit starts to phase out for couples earning more than $160,000 (AGI), and is gone for couples earning more than $180,000 (AGI). For single individuals, just take half of the AGI figure(s).

__LLC:__ The Lifetime Learning Credit is a college credit to be used for a postsecondary degree program. The course must be offered by an eligible educational institution, such as any college, university, or vocational school. The credit is worth 20% of the first $10,000 of tuition, for a maximum of $2,000. The credit starts to phase out for couples earning more than $110,000 (AGI), and is gone for couples earning more than $130,000 (AGI). For single individuals, just take half of the AGI figure(s).

__529's:__ 529 savings plans are state sponsored educational plans which let your earnings escape federal and state taxes completely if the proceeds are used for qualified college expenses. What are these qualified educational expenses? Tuition & fees, room & board, and computers & software. Most states also offer a tax deduction for contributions. There are no income limits on contributions to 529 plans and funding limits are very, very high.

__Interest:__ Up to $2,500 in student loan interest can be deducted from taxes for couples earning up to $130,000 (AGI). Please also note that student loan interest is not an itemized deduction – you can take this as an *adjustment* to AGI. The deduction then starts to phase out at an AGI above $130,000, and disappears completely at $160,000 (AGI).

All-Star Stocks:

Our favorite stock is Visa (Symbol V on the NYSE). Everybody's favorite credit card brand had its Initial Public Offering during March 2008, and over the past five years, V has averaged an annual return of 28.88 percent, including dividends. Visa operates the world's largest retail electronic payments network and manages the world's most recognized global financial services brand. The company has more branded credit and debit cards in circulation, processes more transactions and has greater total volume than any other competitor. Key catalysts for future growth include the $23 billion purchase of Visa Europe, the global crossover trend from using cash to credit, and V's industry-leading operating margins (66%) and free cash flow (6.2B). Visa is not a bank and does not issue credit cards (the banks do). The firm takes on no credit risk – unlike their competitors Amex or Discover—but V remains an integral part of the trend towards a cashless society. Visa's revenues are primarily generated from the transaction volume generated on Visa-branded credit and debit cards. Challenges going forward for Visa include increased regulation from the Dodd-Frank Act and efforts by retailers such as Walmart to decrease Visa's interchange revenues. However, given Visa's dominant position in the payments industry, we think the stock is fairly priced for the long-term investor.

Closing:

I'd like to thank every one of you that took time to come in for tax planning this fall – I'm sure you'll agree it was *time well spent*. Over the past few weeks, I've taken efforts to revamp the practice, with a new colleague transitioning in and an old colleague leaving. In addition we've added several new business clients and individuals, whom I'm so excited to work with. I'm very eager to start 2017 with the truly exceptional staff that we have on board. I also wanted to thank everyone for the many referrals over the past several months - they are very much appreciated!

Periodically we carry sports tickets for some of our local teams. Currently we have Maryland Terrapin basketball tickets available, and we'll be receiving Baltimore Orioles baseball tickets very shortly. Please give us a call if you'd like to go.

Enjoy the holidays!