Crow Shields Bailey PC
Reaching beyond the numbers.

Beyond the Numbers

A Crow Shields Bailey PC News Publication

Winter 2017

Crow Shields Bailey PC 30 Years of Service

Client Spotlight

September 15, 2008 is an infamous date in American history. On that day nine years ago, the Lehman Brothers filed for Chapter 11 bankruptcy, signifying for many the beginning of the multi-year financial crisis now known as the Great Recession. As luck would have it, this difficult day in American financial history was also the day that local entrepreneurs Larry Sloan and Walter Norris broke ground on Ecovery, LLC, a recycling company in Loxley, AL that is now one of the largest processors of copper and aluminum bearing scrap in North America. The unfortunate timing naturally led to volatile beginnings for the recycling startup. Initially, Ecovery's objective was to capitalize on a market that had been largely untapped at that point- recycled electronic waste generated from televisions, cell phones, computers etc. Additionally, Ecovery was importing European scrap recycling equipment, which was more technologically advanced than anything manufactured domestically, for resale in the United States. In 2011, Kevin Sloan, son of Larry and brother-in-law to Walter, was brought on board as managing partner and CEO. Kevin brought with him extensive manufacturing experience and was charged with streamlining processes in the plant.

Newsletter Contributors

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Deborah Fisher
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Our Vision

Our firm's objective is to maximize our clients' wealth. We strive to be the premier accounting and consulting firm in our area by offering a complete range of quality services to our clients. We will employ only the best people and ensure outstanding training and long-term career opportunities.

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Holiday Message

As Crow Shields Bailey PC winds down another year, we are increasingly aware of how fortunate we are to live and work in the most wonderful place in the world. My daughter and son-in-law are living in Italy for three years as he repays the Air Force for defraying the cost of becoming a dentist. They have been to over 20 countries since their arrival, and each place has its own beauty and distinctions which make it a travel destination. They are so blessed to be able to travel the world at such a young age.

As incredible as many of these places are to see, the greatest country in the world still ranks as the best place to live and work. The United States of America provides us with opportunity to be rewarded for our success and freedom to choose the path to that success.

Our team continues to grow and impress me with their creative talents and eagerness to become the trusted advisor for all our clients. We thank our clients for the confidence they place in us. This challenge keeps us motivated to serve you at a higher level.

This is the time of year to pause and say thanks. Thank you for being part of our CSB family, and we pray for good health and happiness for you and your family. We wish you a holy and happy Christmas Season and a prosperous New Year!

Kenny Crow

Client Spotlight *Continued*

After five years of struggling to gain a foothold in an e-scrap market which saw low margins and intense competition from the overseas export market, Ecovery made a strategic shift in December 2013. Ecovery exited the equipment sales market, transitioned away from electronic waste and focused 100 percent on nonferrous metal processing. The equipment required to shred and disassemble electronic scrap could also be used to shred radiators, specifically copper aluminum radiators like those found in residential and commercial HVAC units. Ecovery invested in additional equipment, modifying their existing two processing lines, which allowed for the extraction and separation of the shredded material into copper and aluminum flakes. The process left a pure raw material that could then be packaged to customer specifications and sold to consumers in a variety of markets. The product was well received, and the new and improved Ecovery, LLC was born.

In 2015, Ecovery expanded to further diversify its raw material base and aluminum product offerings. A rotary and reverb furnace was procured and constructed, coming online in March 2016. The "melt plant" enabled Ecovery to melt its aluminum flakes generated from shredding copper aluminum radiators in the processing plant. The molten aluminum could then be mixed with other grades of aluminum scrap to produce an array of aluminum alloys in casts known as Recycled Secondary Ingots, or RSI. The production of RSI allowed Ecovery to expand its customer base into the automotive, aerospace and consumer goods markets.

By 2017, Ecovery commissioned a third processing line in the processing plant, and an aluminum cone line in the melt plant. Today, Ecovery can process in excess of 12 million pounds of copper and aluminum bearing scrap per month. The increased capacity and improving markets over the last two years led to 40 percent revenue growth from 2015 to 2016, and 100 percent growth from 2016 to 2017. Ecovery's customers are primarily copper mills, aluminum mills, steel mills, foundries and die-casters, ultimately servicing the industrial goods, consumer goods, automotive and aerospace industries.

For the owners, it's been a wild ride, but one that has been rewarding.

"To be able to work in a business that services so many of America's industries, and to do it in a way that has a positive, quantifiable impact on the environment is incredibly rewarding. We are very proud of what we're doing in Loxley," says Kevin Sloan.

Ecovery maintains that its success would not have been possible without the help of Gina McKellar and Crow Shields Bailey, PC (CSB). CSB was present at every step along the way of Ecovery's growth, and Gina's knowledge and expertise were crucial in solving many complex tax issues. Ecovery looks forward to continuing the partnership with CSB as they continue to grow and explore new business opportunities.

For more information, please visit http://www.ecoveryllc.com.

Tax Time Reminder

With the end of 2017 approaching, it's time to get a jump on collecting your tax information to maximize your year-end tax planning. For your convenience, CSB will mail tax organizers around the first of January to help with organizing important information.

Have your income or expenses significantly changed?
Please call our office right away to maximize year-end tax planning.

Want to gauge your 2017 tax situation and prepare a tax savings strategy?
Make an appointment with us today!

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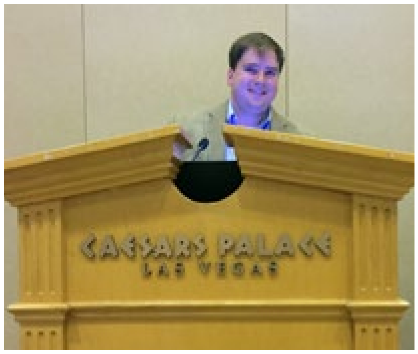
Team Member news

Andrew Bailey was asked to serve as a NextGen Ambassador at the AICPA Forensic and Valuation Services Conference in Las Vegas at Caesar's Palace that took place November 13-15. NextGen is a group with the AICPA that encourages the next generation of CPAs to get involved with valuation and forensic consulting. Being an ambassador means that Andrew helped facilitate for the NextGen track at the conference.



Andrew Bailey

Lori Blum's dog, Lulu, dressed as a Chia pet for Halloween!

Lulu

Lauren and David Cameron's son Landon as Catboy!

Landon Cameron

Ryan and Mandy Damrich's daughters, Kingsley and Berkley, as Elsa and Olaf from Frozen!

Kingsley Damrich

Berkley Damrich

Kristi Daughtery

Kristi Daughtery spoke to a cost accounting class at The University of South Alabama for National Business Women's Week! The purpose of NBWW is to recognize community business women, hear their stories, and provide insight, advice, and resources for other women on how to succeed inside and outside the work force.

Kristi and Brian Daughtery's sumo wrestler Jamison, giraffe Anna Collins, and clown Jonah celebrating Halloween.

Jamison, Anna Collins and Jonah

Caroline and Elizabeth

Teresa and Walter Ernest's daughters Caroline and Elizabeth trick-or-treating.

Anne Margaret, Madeleine and Henry

Barb Frerman's newest granddaughter, Anne Margaret, with big sister Madeleine and big brother Henry!

John, Lauren and Emma

John & Lauren Gafford, with their little Emma-berry, on Halloween!

Crow Shields Bailey team members attended RSM US Alliance's (RSM) 2017 Leadership Conference in Chicago from October 23-27. This year's conference theme was "Innovate. Collaborate. Elevate.," and provided our team with opportunities to build relationships and network within the RSM US Alliance community, and develop leadership, innovation and advisory skills to share with our firm. From the Innovation Challenge, to the inspiring keynote speakers, Mark Koziel and Peter Sheahan, our team enjoyed the opportunity for professional development within our industry.

Maarty van der Giessen playing bass

Gina & Deborah at Hamilton play

Gina at leadership conference

Colleen Keleher's husband Maarty van der Giessen playing bass with Dat B at Ten Sixty-Five Fest!

Gina McKellar's son, Brian Russell, got engaged to Ellie Bissell on July 6, 2017! The wedding will be in Augusta, GA on May 19, 2018.

Brian Russell and Ellie Bissell

Tyler Reed

Kay Reed's son Tyler has earned his real estate sales license and is currently working with Berkshire Hathaway Cooper & Co., Inc.

Cindy and Amin Rathle, Connie and Joey Bailey

Kenny at leadership conference

Abby and David Roveda's son, George (of the Jungle)!

George Roveda

Emilee Shuler's son Finn Shuler at the pumpkin patch.

Finn Shuler

Amin Rathle, Connie Bailey, and Marty Crow

Ryan Damrich and Andrew Bailey

Lori Blum Halloween nerf war

Lori Blum and Ryan Damrich were the winners of our Halloween nerf war! Team members brought Halloween themed snacks for everyone to enjoy!

CSB Cares

CSB blood drive

We held a blood drive on October 12 in honor of the Las Vegas shooting victims.

CSB members & family at cancer walk

Members of our team and their families took part in this year's Making Strides Against Breast Cancer Walk. Our office raised over $400, and The Real Men Wear Pink Campaign raised just under $123,000!

CSB team at Sporting Clays Fall Classic

Members of our team participated in the 8th annual Sporting Clays Fall Classic fundraiser hosted by the Rotary Club of Point Clear. Every year, this event raises significant funds to support the Fairhope/Point Clear Rotary Youth Club.

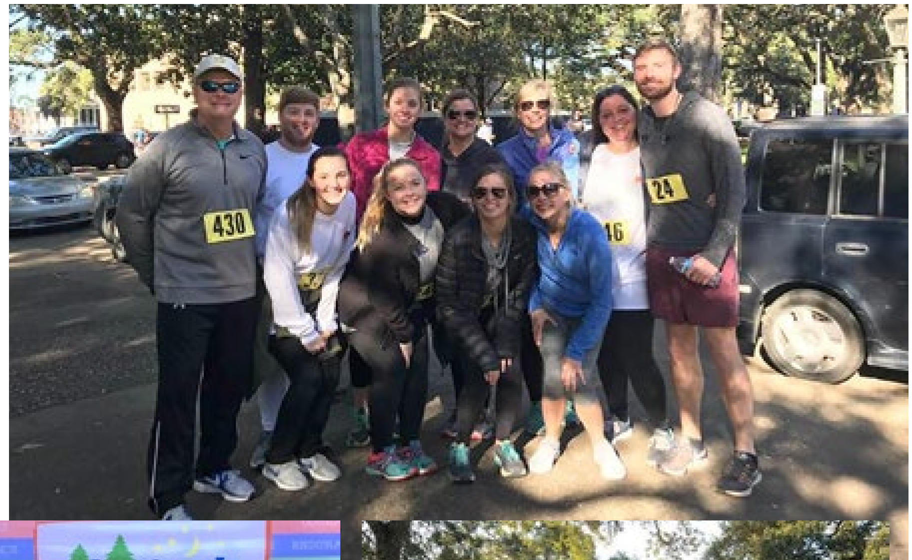
NEST Foundation event

NEST team members spoke on their experiences living out NEST's mission - to nurture children, equip parents, strengthen families, and transform communities. Our friend, Judge Edmond Naman, who formed the idea of NEST through his work in juvenile courts, gave a passionate speech emphasizing the services the NEST Foundation provides every day to fight for "the hearts and souls and minds of our children."

We participated in the 2nd annual Young Professionals of the Eastern Shore Cornhole Tournament! The tournament entry fees raised funds for the Spanish Fort Public Library summer reading program.

CSB team at Cornhole Tournament

Our office raised over $1,000 for the Turkey Trot for Hope to ensure that children with cancer can attend Camp Rap-A-Hope free of charge. John Shields got in the spirit by wearing the famous turkey suit at our annual Thanksgiving potluck!

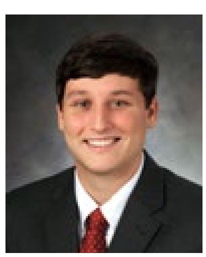


New Team Members

Congratulations to our three new accounting professionals, all of which started out at CSB as interns! Congratulations to our new bookkeeping professional as well!

Dawn Allen

Dawn Allen is a graduate of The University of South Alabama who is involved with the Young Women's Civic Club, a member at Wilmer United Methodist Church, a member of the Needham Bryan Chapter of the Daughters of the American Revolution, and is involved with the Historic Mobile Preservation Society. She is getting married in December of 2017, and in her spare time she enjoys spending time with family, reading, and relaxing on the beach. Fun fact: Dawn is an identical twin!

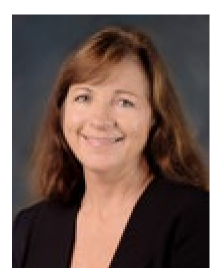


Jay Crowley

Jay Crowley is a graduate of The University of Alabama who is a member of St. Ignatius Catholic Church. He plays basketball, golf, tennis, and enjoys hunting and spending time with friends and family. Fun fact: Jay won the MCAL city swim meet when he was six years old!

Frank Schottgen

Frank Schottgen is a graduate of The University of Alabama who is involved with the Coffee Club, in which breakfast is served to the homeless. His hobbies include watching college football and NFL, hunting, fishing, playing golf, basketball, tennis, and baseball. Fun facts: Frank played soccer in high school and in college on the intramural team. In his free time, he writes for a college football website!



Regina Worth

Regina Worth is our newest Gulf Shores team member, with expertise in Quickbooks, bookkeeping, and payroll service. A graduate of Indian River Community College with an Associate of Science Degree in Registered Nursing, she "very much enjoys working with people and providing them quality service." She is married to Terry Worth and has two children and three grandchildren. Regina enjoys camping, hiking, biking, gardening, and spending time with family. Regina believes that "It is better to say 'why not' than 'what if!'"

2017 Year-End Income Tax Planning For Individuals

With year-end approaching, this is the time we "normally" suggest possible year-end tax strategies for our clients. However, from a tax-planning standpoint, 2017 is not a "normal" year. For the first time in over 30 years, we are facing the real possibility that Congress could pass major tax reform legislation, which could happen by the end of this year. As we complete this letter, the House of Representatives and Senate have both proposed Tax Reform Bills, which if enacted, would make significant changes impacting all taxpayers

Caution! The status of this legislation is fluid. It is not possible to predict with precision what changes will be included in any "final" tax bill, when it will be passed, or even whether final tax reform legislation will be passed at all. Moreover, many of the changes that are currently being discussed could be modified or even dropped altogether in the final legislation. Planning Alert! We are closely monitoring this proposed tax legislation. Feel free to call our firm for a status report.

Notwithstanding the uncertainty of tax reform, this letter outlines certain traditional year-end tax planning strategies we think you should consider. Traditional year-end tax planning strategies include deferring "income" to a later year and accelerating "deductions" into the current year. If tax reform legislation passes this year, these strategies may prove even more beneficial than expected. For example, the proposed legislation calls for a reduction in tax rates. If tax rate reduction is enacted and becomes effective in 2018, there will likely be many more individuals in higher tax brackets in 2017 as compared to 2018. Therefore, it is possible that deferring income into 2018 may benefit a larger number of individuals than otherwise expected. Moreover, if tax reform eliminates or limits current deductions starting in 2018, accelerating those deductions into 2017 may preserve a deduction that might otherwise be lost altogether.

Planning Alert! Due to the uncertainty of tax reform, we believe the best approach is to delay the implementation of tax-savings strategies as long as possible - but be prepared to act quickly near the end of 2017!

Be Careful! Tax planning strategies suggested in this letter may subject you to the alternative minimum tax (AMT). For example, many deductions are not allowed for AMT purposes, such as: personal exemptions, the standard deduction, state and local income taxes, and real estate taxes. Therefore, we suggest that you call our firm before implementing any tax planning technique discussed in this letter. You cannot properly evaluate a particular planning strategy without calculating your overall tax liability (including the AMT and any state income tax) with and without that strategy. Please Note! This letter contains ideas for Federal income tax planning only. State income tax issues are not addressed.

Proposed Tax Reform Legislation

The House of Representatives passed the "The Tax Cuts and Jobs Act of 2017" in early November and the Senate passed its version of tax reform a few weeks later. At the time we are preparing this letter, these two bills are now in a joint committee being reconciled. During this process, new proposals may be added and certain current proposals will be modified or even eliminated altogether. Moreover, it is still up in the air whether and when this promised tax reform legislation will be enacted. However, these initial bills provide us with the most detailed guidance to date regarding the types of tax changes we can expect. We will closely monitor this tax reform legislation, so feel free to call our firm if you have questions about proposals not discussed below or you simply need a status report.

It is well beyond the scope of this letter to provide a detailed discussion of these tax bills which are hundreds of pages long. Therefore, we highlight below only selected provisions in the House and Senate Bills that we believe, if enacted, could have a significant impact on individual and business taxpayers.

Unless stated otherwise, the proposals listed below would not be effective until 2018!

Lower Individual Tax Rates

House Bill: Reduces the current seven individual tax-rate brackets to four (12%, 25%, 35%, and 39.6%). The lowest 12% rate applies to the first $90,000 of taxable income for joint filers ($45,000 for singles), and the top 39.6% rate applies to taxable income exceeding $1,000,000 for joint filers ($500,000 for singles).

Senate Bill: Keeps seven individual tax –rate brackets: 10, 12, 22, 24, 32, 35, and 38.5 percent. The lowest 10% rate applies to the first $19,050 of taxable income for joint filers ($9,525 for singles) and the top 38.5% rate applies to taxable income exceeding $1,000,000 for joint filers ($500,000 for singles).

In both the House and Senate Bills, the tax rates on long-term capital gains (and presumably qualified dividends) would generally be consistent with current law.

Increased Standard Deduction and Elimination of Personal and Dependency Exemptions

House Bill eliminates the personal and dependent exemptions altogether, and replaces them with a larger standard deduction ($24,400 for joint filers; $18,300 for unmarried individuals with a qualifying child; and $12,200 for singles).

Senate Bill generally follows the House Bill by eliminating personal and dependent exemptions and raising the standard deduction to slightly different amounts ($24,000 for joint filers; $18,000 for unmarried individuals with a qualifying child; and $12,000 for singles). Also allows additional deductions for elderly and blind taxpayers.

"Phase-out" of Itemized Deductions for High-Income Taxpayers
House and Senate Bills: Repeal the phase-out, which under current law reduces the benefit of itemized deductions above certain income levels.

Targeted Family Tax Credits
House Bill: Increases the child tax credit to $1,600 and gives a temporary credit of $300 for non-child dependents. A temporary family flexibility credit of $300 is allowed with respect to the taxpayer who is neither a child nor a non-child dependent.
Senate Bill: Increases the child tax credit to $2,000 and allows a $500 credit for non-child dependents.

Home Mortgage Interest Deduction
House Bill: Reduces the current $1 million limitation to $500,000 (for debt incurred after 11/2/17) and eliminates the home equity interest deduction. Applies to principal residence only, not to second homes.
Senate Bill: Retains the current home mortgage interest deduction with a $1 million cap. Applies to first and second homes. Eliminates the home equity interest deduction.

Miscellaneous Itemized Deductions
House Bill: Repeals miscellaneous deductions for tax preparation expenses and unreimbursed employee business expenses.
Senate Bill: Repeals all miscellaneous itemized deductions.

State and Local Taxes
House and Senate Bills: Deduction for state and local income taxes is repealed. Also, taxpayers may no longer deduct state and local sales taxes in lieu of state and local income taxes. Property taxes are deductible up to $10,000.

Medical Expenses
House Bill: Repeals the medical expense deduction.
Senate Bill: Keeps the medical expense deduction and lowers 10% AGI threshold to 7.5% for 2017 and 2018.

Education
House Bill: Consolidates the American Opportunity Tax Credit and Lifetime Learning Credit and eliminates the deduction for interest on student loans.
Senate Bill: Makes no changes to education credits and retains student loan interest deduction.

Alimony
House and Senate Bills: Repeal the deduction for alimony by the payer. The recipient no longer includes alimony in income.

Moving Expenses
House and Senate Bills: Repeal the deduction for moving expenses.

Exclusions for Home-Sale Gains
House Bill: 1) Requires an individual to own and use a home as the individual's principal residence for 5 out of the previous 8 years (instead of 2 out of the previous 5 years) to qualify for the up to $500,000 or $250,000 home-sale exclusion, 2) Allows the taxpayer to use the home-sale exclusion only once every five years (instead of once every two years as under current law), and 3) Reduces the exclusion for each dollar of an individual's average AGI (average of the current and prior two years) in excess of $500,000 ($250,000 for single filers).
Senate Bill: Generally follows the House Bill but has no phase-out of the exclusion based on AGI.

Elimination of the Alternative Minimum Tax
House Bill: Repeals the "Alternative Minimum Tax" (AMT).
Senate Bill: Retains the AMT with some modifications.

Estate Tax
House Bill: For years 2018-23, doubles the federal estate tax exemption from $5.49 million to $10.98 million per person, to approximately $11 million per person and $22 million for a married couple, with a top rate of 40 percent. After 2023, the estate tax is eliminated while maintaining a beneficiary's stepped-up basis in estate property. The gift tax remains but with a lowered rate of 35 percent. Retains annual exclusion of $14,000.
Senate Bill: Follows the House in doubling the exemption, but has no provision for repeal of the estate tax.

Corporate Taxes
House Bill: Corporate tax rate reduced to 20 percent beginning 1/1/18, from top rate of 35%. Personal service corporations taxed at flat rate of 25%.
Senate Bill: Same as House Bill, but 20 percent rate not effective until 1/1/19. Eliminates higher rate on personal service corporations.

Pass-Through Businesses (S corporations, Partnerships and Proprietorships)
House Bill: Provides a top rate of 25 percent for certain amount of pass-through income, with a nine-percent rate for certain small businesses.
Senate Bill: Allows a 23 percent deduction of pass-through income for certain businesses.

Immediate Write-off of Business Assets
House Bill: 100% bonus depreciation for investments for five-year period beginning with property placed in service after 9/27/17 and before 1/1/23 (now 50%, scheduled to phase down to 30% by 2021). Increases Section 179 limit to $5 million and phase-out to $20 million for tax years beginning before 1/1/23.
Senate Bill: 100% bonus generally the same as House. Increases Section 179 limit to $1 million and phase-out to $2.5 million for tax years beginning before 1/1/23. Recovery period for nonresidential and residential real estate reduced from 39 years and 27.5 years respectively, to 25 years for both; recovery period for retail/restaurant/ leasehold improvement property reduced to 10 years.

Domestic Production Activities Deduction (DPAD)
House and Senate Bills: Eliminate Code Section 199 DPAD.

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Business Entertainment Expenses
House and Senate Bills: Eliminate deduction for business entertainment including membership dues.

Traditional Year-End Tax Planning Techniques

POSTPONING TAXABLE INCOME MAY SAVE TAXES
Deferring taxable income from 2017 to 2018 may reduce your income taxes if your effective income tax rate for 2018 will be lower than your effective income tax rate for 2017. For example, the deferral of income could cause your 2017 taxable income to fall below the thresholds for the highest 39.6% tax bracket (i.e., $470,700 for joint returns; $418,400 if single). In addition, if you have income subject to the 3.8% Net Investment Income Tax (3.8% NIIT) and the income deferral reduces your 2017 modified adjusted gross income (MAGI) below the thresholds for the 3.8% NIIT (i.e., $250,000 for joint returns; $200,000 if single), you may avoid this additional 3.8% tax on your investment income. Planning Alert! If tax reform is enacted and the tax rates for 2018 are reduced, deferring income beyond 2017 could generate even larger tax benefits than expected under the current tax rules.

If, after considering all factors, you believe that deferring taxable income into 2018 will save you taxes, consider the following strategies:

Deferring Self-Employment Income. If you are a self-employed individual using the cash method of accounting, consider delaying year-end billings to defer income until 2018. Planning Alert! If you have already received the check in 2017, deferring the deposit of the check does not defer the income. Also, you may not want to defer billing if you believe this will increase your risk of not getting paid.

Using Installment Sales To Defer Taxable Gain. If you plan to sell certain appreciated property in 2017, you might be able to defer the gain until later years by taking back a promissory note instead of cash. By taking a promissory note, you may qualify for the "installment method" which allows you to pay tax on the gain only as you collect payments on the note. Qualifying for the installment method not only defers the time you must pay the tax on the gain, but could also defer all or a portion of the gain into later years when your expected tax rate is less than your 2017 tax rate. For example, spreading the gain over several years could reduce the seller's income tax in the year of sale (and possibly subsequent years) by reducing the tax rates on long-term capital gains below the top 20% capital gains rate. This could also prevent the seller's income from exceeding the thresholds for the 3.8% NIIT (discussed in more detail below). Caution! You may not want to take back a promissory note in lieu of cash if you believe this reduces your chances of getting paid.

Postponing Cancellation Of Debt Income. If you negotiate or arrange a reduction or cancellation of a debt you owe to others, unless you meet certain exceptions, you will generally have to report "cancellation of debt" (COD) income. For example, you could have COD income where: Your creditor, such as a credit card company, agrees to accept as full payment an amount which is less than the amount you owe; You own real estate subject to a mortgage and the lender forecloses on the property (or, you enter into a short sale of the mortgaged property); You own an interest in a partnership (or LLC) or "S" corporation and the partnership or S corporation has COD income. Planning Alert! If you are in the process of negotiating an agreement with your creditors that involves a debt reduction that would trigger COD income, consider postponing the action until after 2017 to defer any debt cancellation income into 2018.

Planning For Required Distributions From IRAs. Generally, once you reach age 70½, you are required to begin taking "Required Minimum Distributions" (RMDs) from your IRA or qualified retirement plan account. A 50% penalty applies to the excess of the "Required Minimum Distribution" (RMD) over the amount actually distributed. You might wish to consider the following ideas concerning RMDs which might save you money.

- IRA Owners Who Attain Age 70½ During 2017. If you reached age 70½ at any time during 2017, you must begin distributions from a traditional IRA account no later than April 1st of 2018. In addition, if you wait until 2018 to take your first payment, you will still be required to take your second RMD no later than December 31, 2018, which will cause you to "bunch" two payments into 2018. This "bunching" of the first two annual payments into one tax year (2018) could cause you to pay higher overall taxes if the bunching puts you in a higher tax bracket for 2018 than for 2017. However, if you expect your 2018 tax rate on the "bunched" payments to be lower than your tax rate on the first payment, if made in 2017, it could save you overall taxes to "bunch" the 2017 and 2018 RMDs into 2018.

- Individuals Making Charitable Contributions Who Are Age 70½ Or Older. If you have reached age 70½ and you are planning to make charitable contributions before the end of 2017, there is a special tax break that could apply to you. If you have reached age 70½, you may have your IRA trustee write a check, up to $100,000, from your IRA directly to a qualified charity and exclude the IRA contribution to the charity from income. The IRA trustee's contribution to the charity also counts toward your "Required Minimum Distributions" (RMDs) for the year. This tax break effectively allows you to exclude all or a portion of your otherwise taxable RMDs from taxable income. This, in turn: 1) Could cause your 2017 modified adjusted gross income (MAGI) to stay below the thresholds for the 3.8% NIIT (i.e., $250,000 for joint returns; $200,000 if single), that might otherwise be imposed on your investment income (e.g., dividends, interest, capital gains), and 2) Could also increase various credits and deductions for 2017 that would otherwise be phased out as your adjusted gross income increases. Tax Tip. To qualify, the check from your IRA must be made out "directly" to your designated charity. In addition, if the contribution is $250 or more, you must get a timely, qualifying receipt from the charity for the charitable contribution. Planning Alert! To take advantage of this exclusion for 2017, the trustee of your IRA must write the check to the charity by December 31, 2017. It may take the IRA custodian several days to complete all the necessary paper work to write the check. Consequently, you should alert the trustee that you want the check written to the charity well before December 31, 2017.

Individuals Who Inherit IRAs And Qualified Retirement Plan Accounts May Defer Income By Delaying Distributions. If you are the beneficiary of an IRA or qualified plan account of someone who has died, you should consider the following options for deferring your RMDs (and thus postponing taxable income):

Planning For IRA Distributions After The Owner's Death. If you are the beneficiary of an IRA or qualified plan account of someone that has died in 2017, there are certain time-sensitive planning techniques you should consider without delay. For example, if the decedent named multiple individual beneficiaries or included an estate or charity as a beneficiary, we may be able to rearrange the IRA beneficiaries for maximum tax deferral. The rules for rearranging IRA beneficiaries after the owner dies are tricky, and acting before certain deadlines pass is critical. If the owner died in 2017, the best tax results can generally be achieved by making any necessary changes no later than December 31, 2017. If you need our assistance, we should review your situation as soon as possible.

- Rollovers By Surviving Spouses. If your spouse passed away during 2017 and named you beneficiary of an IRA or qualified plan account, there are certain things you should consider if you want to maximize tax deferral. For example, if your spouse was over age 70½ and died during 2017, and you are over 59½, you should consider rolling the deceased spouse's qualified plan or IRA amount into your name (as surviving spouse) on or before December 31, 2017. If you complete this rollover before 2018, then: 1) If you are under age 70½, you will not be required to take any Required Minimum Distributions (RMDs) until the tax year you reach age 70½, or 2) If you are at least 70½, your RMD for 2018 (and for future years) will be determined using the Uniform Lifetime Distribution Table that results in a smaller annual required payout. Therefore, converting the account into your name (as surviving spouse) on or before December 31, 2017, could substantially reduce the amount of your RMD for 2018 where the decedent was at least 70½. Planning Alert! If you (as surviving spouse) are not yet 59½, leaving the IRA or qualified plan account in the name of your deceased spouse may be the best option if you think that you will need to withdraw amounts from the retirement account before you reach age 59½. If your deceased spouse's account is transferred into your name and you take a distribution before reaching age 59½, the distribution could be subject to a 10% early distribution penalty.

Taking Advantage of Deductions

If new tax legislation is enacted and reduces individual tax rates after 2017 as proposed, individuals would likely be subject to higher tax rates in 2017 than for 2018. Thus, accelerating deductions into 2017 may generate an even greater tax benefit than expected. Planning Alert! The tax reform proposals currently working their way through Congress would, if enacted, eliminate or place new limits on deductions after 2017 (e.g., proposals to eliminate or restrict the deduction for state and local taxes and medical expenses). Therefore, depending on future legislation, paying for a deductible item in 2017, rather than waiting until 2018, could have the added benefit of preserving a deduction that might not otherwise be available in 2018. If you think that you would benefit from accelerating 2018 deductions into 2017, you should consider the following:

"Above-The-Line" Deductions Can Generate Multiple Tax Benefits. So-called "above-the-line" deductions reduce both your "adjusted gross income" (AGI) and your "modified adjusted gross income" (MAGI), while "itemized" deductions (i.e., below-the-line deductions) do not reduce either AGI or MAGI. Deductions that reduce your AGI (or MAGI) can generate multiple tax benefits by: 1) Reducing your taxable income and allowing you to be taxed in a lower tax bracket; 2) Potentially freeing up other deductions (and tax credits) that phase out as your AGI (or MAGI) increases (e.g., itemized deductions, personal exemptions, IRA contributions, education credits, adoption credit, etc.); 3) Potentially reducing your MAGI below the income thresholds for the 3.8% Net Investment Income Tax (i.e., 3.8 % NIIT only applies if MAGI exceeds $250,000 if married filing jointly; $200,000 if single); or 4) Potentially reducing your household income to a level that allows you to qualify for a "refundable" Premium Tax Credit for health insurance purchased on a government Exchange.

If you think that you could benefit from accelerating "above-the-line" deductions into 2017, consider the following:

- Identifying "Above-The-Line" Deductions. "Above-the-line" deductions include deductions for IRA or Health Savings Account (HSA) contributions, health insurance premiums for self-employed individuals, qualified student loan interest, qualified moving expenses, qualifying alimony payments, and business expenses for a self-employed individual. Tax Tip. Unreimbursed "employee" business expenses are classified as "miscellaneous itemized deductions" and trigger two potential limitations: 1) In the aggregate, these deductions are allowed only to the extent they exceed 2% of your AGI, and 2) Any excess over the 2% threshold is included in "itemized deductions" and is subject to the 3% of AGI subtraction. However, if you arrange for your employer to reimburse you for your "qualified" employee business expenses under an "accountable reimbursement plan," the reimbursement is excluded from your income (which essentially generates the equivalent of an "above-the-line" deduction). Note! We can help you establish a qualifying accountable reimbursement plan with your employer.

- Accelerating "Above-The-Line" Deductions. As a cash method taxpayer, you can generally accelerate a 2018 deduction into 2017 by "paying" it in 2017. "Payment" typically occurs in 2017 if a check is delivered to the post office, if your electronic payment is debited to your account, or if an item is charged on a third-party credit card (e.g., Visa, MasterCard, Discover, American Express) in 2017. Caution! If you postdate the check to 2018 or if your check is rejected, no payment has been made in 2017. Planning Alert! The IRS says that prepayments of expenses applicable to periods beyond 12 months after the payment are not deductible in 2017.

Continued on Page 12

Accelerating "Itemized" Deductions Into 2017. As mentioned above, although "itemized" deductions (i.e., below-the-line deductions) do not reduce your AGI or MAGI, they still may provide valuable tax savings. Many of your itemized deductions are reduced in the aggregate once your AGI exceeds certain thresholds (e.g., for 2017 – $313,800 for joint returns; $261,500 if single). Itemized deductions generally include charitable contributions, state and local income taxes (or, alternatively state and local sales taxes), property taxes, medical expenses, unreimbursed employee travel expenses, home mortgage interest, and gambling losses (to the extent of gambling income). However, if your itemized deductions fail to exceed your Standard Deduction in most years, you are not receiving maximum benefit for your itemized deductions. You could possibly reduce your taxes over the long term by bunching the payment of your itemized deductions in alternate tax years. This may produce tax savings by allowing you to itemize deductions in the years when your expenses are bunched, and use the Standard Deduction in other years. Tax Tip. The easiest deductions to shift from 2018 to 2017 are charitable contributions, state and local taxes, and your January, 2018 home mortgage interest payment. For 2017, the standard deduction is $12,700 on a joint return and $6,350 for single individuals. If you are blind or age 65, you get an additional standard deduction of $1,250 if you're married ($1,550 if single).

- Pending Tax Reform Proposals Could Enhance The Benefits Of Accelerating Itemized Deductions Into 2017! As previously discussed, current tax reform proposals call for a significant increase in the "Standard Deduction." If this larger standard deduction is enacted and is effective in 2018, individuals who would itemize deductions for 2018 under current law, instead, may use the standard deduction for 2018. This would result in a loss of any benefit for items qualifying as an itemized deduction under current law that are paid in 2018. Therefore, if the increased standard deduction is enacted and is effective for 2018, these individuals could benefit by paying expenses qualifying as an itemized deduction before the end of 2017. Moreover, since the tax reform proposals would, if enacted, eliminate or place new limits on current itemized deductions (e.g., eliminate or restrict the deduction for state and local taxes and medical expenses), accelerating those deductions into 2017 could also have the benefit of preserving a deduction that might otherwise be lost in 2018.

Pay Careful Attention To The Payment Of Your State And Local Income Taxes. If you anticipate deducting your state and local income taxes, consider paying them (fourth quarter estimate and balance due for 2017) and any property taxes for 2017 prior to January 1, 2018 if your tax rate for 2017 is higher than or the same as your projected 2018 tax rate. This will provide a deduction for 2017 (a year early) and possibly against income taxed at a higher rate. Planning Alert! Current tax reform proposals include the possibility of eliminating or limiting the itemized deduction for state and local taxes. Moreover, under current rules, state and local income and property taxes are not deductible for AMT purposes. Therefore, if you are subject to AMT for 2017, you will generally receive no benefit for these deductions. Caution! Please consult us before you overpay state or local income taxes!

Pending Tax Proposals That Could Impact Planning for AMT. As mentioned above, certain itemized deductions are not allowed in computing your "Alternative Minimum Tax" (AMT), such as state and local taxes (including state income taxes) and unreimbursed employee business expenses. Congress is currently considering tax reform proposals that, if enacted, could eliminate the "Alternative Minimum Tax" (AMT) after 2017. Consequently, if the repeal of AMT is enacted and becomes effective in 2018, and the current deductions that are not allowed to reduce AMT in 2017 remain deductible for regular tax purposes in 2018, it could be to your advantage to delay payment of these items until 2018.

Tax Planning For Investment Income (Including Capital Gains And The 3.8% NIIT)

Planning With The 3.8% Net Investment Income Tax (3.8% NIIT). The Affordable Care Act (ACA) provides for a 3.8% Net Investment Income Tax (3.8% NIIT) on the net investment income of higher-income individuals. This tax applies to individuals with modified adjusted gross income (MAGI) exceeding the following "thresholds": $250,000 for married filing jointly; $200,000 if single; and $125,000 if married filing separately. The 3.8% NIIT is imposed upon the lesser of an individual's: 1) Modified adjusted gross income (MAGI) in excess of the threshold, or 2) Net investment income. Trusts and estates are also subject to the 3.8% NIIT on the lesser of: 1) The adjusted gross income of the trust or estate in excess of $12,500 (for 2017), or 2) The undistributed net investment income of the trust or estate.

The 3.8% NIIT not only applies to traditional types of investment income (i.e., interest, dividends, annuities, royalties, and capital gains), it also applies to "business" income that is taxed to a "passive" owner (as discussed in more detail below) unless the "passive" income is subject to S/E taxes. If you believe that the 3.8% NIIT may apply to you, consider the following planning techniques:

- Roth IRAs (Including Roth IRA Conversions). Tax-free distributions from a Roth IRA are exempt from the 3.8% NIIT, and do not increase your MAGI (and, thus will not increase your exposure to the 3.8% tax). Therefore, these tax-favored features should be factored into any analysis of whether you should contribute to a Roth IRA. However, if you are considering converting a traditional IRA into a Roth, the income triggered in the year of conversion would increase your MAGI and, therefore, may increase your exposure to the 3.8% NIIT on your net investment income (e.g., dividends, interest, capital gains). Planning Alert! If you want a Roth conversion to be effective for 2017, you must transfer the amount from the regular IRA to the Roth IRA no later than December 31, 2017 (you do not have until the due date of your 2017 tax return). Caution! Whether you should convert your traditional IRA to a Roth IRA can be an exceedingly complicated issue, and the 3.8% NIIT is just one of many factors that you should consider. Please call our firm if you need help in deciding whether to convert to a Roth IRA.

- "Passive" Income. "Net Investment Income" for purposes of the 3.8% NIIT generally includes net income from a business activity if you are a "passive" owner (unless the income constitutes self-employment income that is subject to the 2.9% Medicare tax). You will generally be deemed a "passive" owner if you do not "materially participate" in the business as determined under the traditional "passive activity loss" rules. For example, under the passive activity loss rules, you may be a "passive" owner unless you spend more than 500 hours working in the business during the year or meet one of the other "material participation" tests. Furthermore, rental income is generally deemed to be "passive" income under the passive activity loss rules, regardless of how many hours you work in the rental activity. Tax Tip. In certain situations, real estate rentals may not be treated as "passive" income and could also be exempt from the 3.8% NIIT. For example, if you are a "qualified real estate professional," or you lease property to a business in which you "materially participate," the rental income may be exempt from the 3.8% NIIT. If you believe you may qualify for one of these rental real estate exemptions, or you otherwise believe you may have "passive" income from non-rental business activities, please contact our firm. We will gladly evaluate your situation to determine whether there are steps you could take before the end of 2017 to avoid "passive" income classification, and thus, reduce your exposure to the 3.8% NIIT.

Traditional Year-End Planning With Capital Gains And Losses. Generally, net capital gains (both short- term and long-term) are potentially subject to the 3.8% NIIT. This could result in an individual who is otherwise taxed at 39.6% on ordinary income paying tax on his or her net long-term capital gains at a 23.8% rate (i.e., the maximum capital gains tax rate of 20% plus the 3.8% NIIT). In addition, this individual's net short-term capital gains could be taxed as high as 43.4% (i.e., 39.6% plus 3.8%). Consequently, traditional planning strategies involving the timing of your year-end sales of stocks, bonds, or other securities are more important than ever. The following are time-tested, year-end tax planning ideas for sales of capital assets. Planning Alert! Always consider the economics of a sale or exchange first!

- Planning With Zero Percent Tax Rate For Capital Gains And Dividends. Longterm capital gains and qualified dividends that would be taxed (if ordinary income) in the 15% or lower ordinary income tax bracket, are taxed at a zero percent rate. For 2017, taxable income up to $75,900 for joint returns ($37,950 if single) is taxed at the 15% rate, or below. Tax Tip. Taxpayers who have historically been in higher tax brackets but now find themselves between jobs, recently retired, or expecting to report higher-than-normal business deductions in 2017, may temporarily have income low enough to take advantage of the zero percent rate for 2017. If you are experiencing any of these situations, please call our firm and we will help you determine whether you can take advantage of this zero percent tax rate for long-term capital gains and qualified dividends.

- Lower-Income Retirees. The zero percent rate for long-term capital gains and qualified dividends is particularly important to lower-income retirees who rely largely on investment portfolios that generate dividends and long-term capital gains. Furthermore, gifts of appreciated securities to lower-income individuals who then sell the securities could reduce the tax on all or part of the gain from as high as 23.8% to as low as zero percent. Caution! If the lower-income individual is subject to the so-called kiddie tax, this planning technique will generally not work.

- Timing Your Capital Gains And Losses. If the value of some of your investments is less than your cost, it may be a good time to harvest some capital losses. For example, if you have already recognized capital gains in 2017, you should consider selling securities prior to January 1, 2018 that would trigger a capital loss. These losses will be deductible on your 2017 return to the extent of your recognized capital gains, plus $3,000. Tax Tip. These losses may have the added benefit of reducing your income to a level that will qualify you for other tax breaks, such as the: $2,500 American Opportunity Tax Credit, $1,000 Child Credit, $13,570 Adoption Credit, etc. Planning Alert! If, within 30 days before or after the sale of loss securities, you acquire the same securities, the loss will not be allowed currently because of the "wash sale" rules (although the disallowed loss will increase the basis of the acquired stock). Tax Tip. If you are afraid of missing an upswing in the market during this 60-day period, consider buying shares of a different company in the same sector. Also, there is no wash sale rule for gains. Thus, if you decide to sell stock at a gain in order to take advantage of a zero capital gains rate, or to absorb capital losses, you may acquire the same securities within 30 days without impacting the recognition of the gain.

Final Comments

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our firm closely monitors these changes. In addition, please call us before implementing any planning ideas discussed in this letter, or if you need additional information. Note! The information contained in this material should not be relied upon without an independent, professional analysis of how any of the items discussed may apply to a specific situation.

Ask an Auditor:
What is the difference between an audit, review and compilation?

People sometimes assume that any financial statements that come from a CPA are audited, but this is often not the case. Financial statements may also be reviewed, compiled or simply prepared by CPAs. Prepared financial statements do not have reports and should say on the face of the financial statements that no assurance is provided. Audited, reviewed and compiled financial statements all include a report signed by the CPA, but are very different services, so it is important to understand the different procedures required and levels of assurance provided by each service. Each of these is discussed below:

In a compilation, the CPA issues a report stating that the compilation was performed in accordance with professional standards but provides no assurance that the statements are in accordance with the "applicable accounting framework". "Applicable accounting framework" means the basis of accounting used for the financial statements: GAAP, tax basis, cash or modified cash basis, etc. Compilation procedures consist of reading the financial statements and considering whether they appear to be appropriate in form and free from obvious material misstatements. If the accountant becomes aware that information provided by management to prepare the financial statements is incomplete, inaccurate or otherwise unsatisfactory, the accountant should bring that to the attention of management and request additional or corrected information. In addition, if the accountant becomes aware that the financial statements require revisions or are misleading, the accountant should propose the revisions to management. However, the accountant is not expected to perform any procedures to test the accuracy of information or detect errors in a compilation. A CPA is not required to be independent to perform a compilation, but lack of independence should be noted in the accountant's compilation report.

In a review, the CPA issues a report including a conclusion, which expresses limited assurance that they did not become aware of any material modifications that should be made to the financial statements to be in accordance with the applicable accounting framework. Review procedures consist mainly of analytical procedures and inquiries of members of management who have responsibility for financial and accounting matters. Analytical procedures that may be performed include: comparing the financial statements with comparable information for the prior period, giving consideration to knowledge about changes in the entity's business and specific transactions; considering plausible relationships among both financial and, when relevant, nonfinancial information; comparing recorded amounts or ratios developed from recorded amounts to expectations developed by the accountant through identifying and using relationships that are reasonably expected to exist; and comparing disaggregated revenue data, as applicable. The accountant may also perform other procedures considered appropriate. The accountant then evaluates misstatements identified when performing the review procedures and determines whether material modification should be made to the financial statements. As part of a review, written representations are obtained from members of management who have appropriate responsibilities for the financial statements and knowledge of the matters concerned. A CPA must be independent from a client to perform a review of their financial statements.

An audit is the highest level of assurance a CPA can provide for financial statements. Auditors must be independent from the client they are auditing. In an audit, the auditor assesses risk and plans and performs audit procedures to obtain a high, but not absolute, level of assurance that the financial statements are free from material misstatements. There are numerous procedures that are required to be performed in all audits, and other procedures that are performed depending on the nature of the entity being audited. Typically, an auditor will spend a significant amount of time on-site at the client; have conversations with various levels of client personnel; and obtain reports, documents and other data from the client and outside sources for audit testing. Errors, internal control deficiencies and other problems identified as a result of audit procedures are communicated to management (and governing body if applicable) and both the auditor and management must conclude that any uncorrected errors do not cause the financial statements to be materially misstated. Management must provide written representations about this and other matters. The auditor's report describes management's responsibility for the financial statements and the auditor's responsibility for expressing an opinion on the financial statements, and includes that opinion. An auditor's opinion can be unmodified (clean), qualified (except for) if there is a material uncorrected error or a required auditing procedure could not be performed, or adverse if the material uncorrected misstatement(s) is considered to be pervasive to the financial statements. The auditor may also disclaim an opinion on one or all of the financial statements if they cannot obtain enough audit evidence to form an opinion.

The level of accounting/auditing service that a company or organization needs depends on factors including requirements of lenders or other users, by-laws or other agreements, how soon the financial statements are needed, and availability of supporting documents. Because costs and time frame increase as the volume of required procedures increase, entities typically prefer to choose the lowest level of service that will meet their requirements. Therefore, financial statement users should be sure to read the reports attached to the financial statements to know what level of assurance is provided.

Tax Tidbits

F.I.C.A. Wages and Self-Employment Earnings

The amount of wages subject to FICA tax at 6.2% (12.4% if self-employed) for 2018 is $128,700 ($1,500 increase from 2017). The FICA-Medicare Tax of 1.45% (2.9% if self-employed) continues to apply to all wages and self-employment income.

Additional Medicare Tax Withholding

There is an additional .9% Medicare tax that employers must withhold on employee wages in excess of $200,000. There is no employer share.

Social Security Earnings Limit

There is a limit on how much you can earn and not affect your Social Security benefits, if you are under normal full retirement age. That limit for 2018 is $17,040. Earn more than this and your benefits are cut $1 for every $2 earned above the limit. The limit for 2017 was $16,920.

Standard Mileage Rates (Cents Per Mile)	2017	2018
Business	53.5	TBD
Charitable	14	TBD
Medical	17	TBD
Moving	17	TBD

Retirement Plan Limits	2017	2018
IRA	$5,500	$5,500
IRA catch-up (age 50+)	1,000	1,000
SEP maximum contribution	54,000	55,000
401(k) 403(b) employee	18,000	18,500
401(k) 403(b) catch-up	6,000	6,000
Simple 408(p)(2)(E)	12,500	12,500
Simple 408(p)(2)(E) catch-up	3,000	3,000
Defined Contribution Limit	54,000	55,000
Annual Compensation Limit	270,000	275,000

Estate and Gift Tax Lifetime Exemption

2013	$5,250,000	(40% rate for amount over $5,250,000)
2014	$5,340,000	(40% rate for amount over $5,340,000)
2015	$5,430,000	(40% rate for amount over $5,430,000)
2016	$5,450,000	(40% rate for amount over $5,450,000)
2017	$5,490,000	(40% rate for amount over $5,490,000)
2018	$5,600,000	(40% rate for amount over $5,600,000)

Gift Tax Annual Exclusion

The gift tax annual exclusion for 2018 will be $15,000 per donee. This is a $1,000 increase from 2017. The exclusion is $30,000 per donee for married couples that elect split gifting.

IRS Approved Per Diem Rates

As of 10/01/17 the "high" and "low" cost per diem allowances for 2018 are:
Low cost of $57 for meals and incidentals, $134 for lodging, for a total of $191.
High cost of $68 for meals and incidentals, $216 for lodging, for a total of $284.

Capital Gains and Qualified Dividend Rates

For the 0% to 15% ordinary-income brackets, the tax rate on long-term capital gains and qualified dividends is zero for 2017. For the 25% to 35% tax brackets, the long-term capital gains and qualified dividends tax rate is 15%. For taxpayers in the 39.6% tax bracket, the long-term capital gains and qualified dividends tax rate is 20%.

Standard Deductions	2017
Married Filing Joint	$12,700
Surviving Spouse	12,700
Head of Household	9,350
Single	6,350
Married Filing Separately	6,350
Dependent	1,050
Add if Blind/+65	1,250 – 1,550

Tax Tables

2017 Married Filing Joint And Surviving Spouses

Taxable Income					
Over	But Not Over	Tax Is	+	% on Excess	Of The Amount Over
$0	$18,650	$0		10%	$0
18,651	75,900	1,865		15%	18,650
75,901	153,100	10,453		25%	75,900
153,101	233,350	29,753		28%	153,100
233,351	416,700	52,223		33%	233,350
416,701	470,700	112,728		35%	416,700
470,701	———	131,628		39.6%	470,700

2017 Single

Taxable Income					
Over	But Not Over	Tax Is	+	% on Excess	Of The Amount Over
$0	$9,325	$0		10%	$0
9,326	37,950	933		15%	9,325
37,951	91,900	5,226		25%	37,950
91,901	191,650	18,714		28%	91,900
191,651	416,700	46,644		33%	191,650
416,701	418,400	120,910		35%	416,700
418,401	———	121,505		39.6%	418,400

Net Investment Income Tax

Net Investment Income Tax is an additional tax of **3.8%** imposed on taxpayers earning more than established threshold amounts (see table below). The tax is in addition to any regular income taxes. The tax is calculated by multiplying the **3.8%** tax rate by the lower of:

1. net investment income for the year; or
2. modified adjusted gross income over a certain threshold amount.

1. Net Investment Income for the purposes of calculating the net investment income tax generally includes interest, dividends, capital gains, annuities, royalties, rents, and passthrough income from a business if you are a "passive" owner.
2. Modified Adjusted Gross Income thresholds for the net investment income tax are:
$250,000 for married filing joint filers and qualifying widows or widowers; $200,000 for single and head of household filers; and $125,000 for married filing separately filers.

Crow Shields Bailey PC
Reaching beyond the numbers.

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