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NEWSLETTER

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Tricky first-year rule for working while collecting Social Security

New retirees can use monthly rather than annual earnings limit.

You may wonder how the Social Security earnings test is applied to people younger than full retirement age if they retire in mid-year.

Generally, you can get Social Security or survivor's benefits and work at the same time. But, if you are younger than full retirement age and earn more than a certain amount, your benefits will be reduced.

It is important to note that these benefit reductions are not truly lost. Your benefit will be increased at your full retirement age to account for benefits withheld due to earlier earnings. However, spouses and survivors who receive benefits because they have minor or disabled children in their care do not receive increased benefits at full retirement age, if benefits were withheld because of work.

If you are younger than full retirement age during 2016, the Social Security Administration will deduct $1 from your benefits for each $2 you earn above $15,720. "How much wages can you receive in the year you file for benefits before the month of filing?" "Does the $15,720 earnings limit for the year include the wages earned before the person files for benefits?"

Sometimes people who retire in midyear already have earned more than the annual earnings limit. That is why there is a special rule that applies to earnings for one year, usually the first year of retirement. Under this rule, you can get a full Social Security check for any whole month you are retired, regardless of your yearly earnings.

In 2016, a person younger than full retirement age for the entire year is considered "retired" if monthly earnings are $1,310 or less. That monthly figure is based on dividing the annual earnings limit of $15,720 by 12.

For example, let's say Mr. Blankenship retired at 62 on October 30, 2016. He will earn $45,000 through October. Then he takes a part-time job beginning in November, earing $500 per month. Although his earnings for the year substantially exceed the 2016 limit of $15,720, he will receive a Social Security payment for November and December because his earnings in those months did not exceed the monthly limit of $1,310.

If, however, Mr. Blankenship earns more than $1,310 in either November or December, he will not receive a benefit for those months. Beginning in 2017, only the annual limit (which is increased for inflation each year) would apply to him.

If you reach full retirement age during 2016, the earnings restrictions disappear, meaning individuals age 66 or older can earn any amount without losing any Social Security benefits.

If you work for someone else, only your wages count toward Social Security's earnings limits. If you are self-employed, Social Security counts only your net earnings from self-employment.

For the earnings limits, Social Security does not count income such as other governmental benefits, investment earnings, interest, pensions, annuities and capital gains. However, SSA does count an employee's contribution to a pension or retirement plan if the contribution amount is included in the employee's gross wages.

If you work for wages, income counts when it is earned, not when it is paid. If you have income you earned in one year, but the payment was made in the following year, it should not be counted as earnings for the year you receive it. Some examples are accumulated sick or vacation pay, and bonuses.

If you are self-employed, income counts when you receive it – not when you earn it – unless it is paid in a year after you become entitled to Social Security and earned it before you become entitled to benefits.

No Corporate Minutes Required to be filed with the Florida Department of State

Apparently, some corporations are receiving a notice requesting minutes and a fee of $135 to file with the Department of State. Please note, according to the Florida Department of State, there is no such requirement.

Here's a prior Department's consumer alert "Please be aware that Compliance Services (not to be confused with the Florida corporation, Compliance Services, Inc.) is mailing notices to business entities requesting 'Annual Minutes' and a fee of $135 be sent to them for filing. These notices are *not* from the Department of State, Division of Corporations. 'Annual Minutes' are not required to be filed with any agency. They are to be kept by the business entity itself. Do not confuse these notices with the messages sent by the Division of Corporations reminding each business entity to file its 2016 Annual Report."

Facing the Tax Challenges of Self-Employment

Today's technology makes self-employment easier than ever. But if you work for yourself, you'll face some distinctive challenges when it comes to your taxes. Here are some important steps to take:

Learn your liability

Self-employed individuals are liable for self-employment tax, which means they must pay both the employ*ee* and employ*er* portions of Social Security/Medicare taxes. The good news is that self-employed individuals may deduct one-half of these taxes. Self-employed individuals are likely required to make quarterly estimated tax payments. Because income taxes aren't withheld from your self-employment income as they are from wages. If you fail to fully make these payments, you could face an unexpectedly high tax bill and underpayment penalties.

Distinguish what's deductible

Under IRS rules, deductible business expenses for the self-employed must be "ordinary" and "necessary." Basically, these are costs that are commonly incurred by businesses to run the operations. Common examples of deductible business expenses for the self-employed include licenses, accounting services, equipment, supplies, legal expenses and business-related software.

Don't forget your home office

Self-employed individuals may deduct many direct expenses (such as business-only phone and data lines, as well as office supplies) and indirect expenses (such as real estate taxes and maintenance) associated with a home office. The tax break for indirect expenses is based on how much of your home is used for business purposes, which you can generally determine by either measuring the square footage of your workspace as a percentage of the home's total area, or using a fraction based on the number of rooms.

The IRS typically looks at two questions to determine whether a taxpayer qualifies for the home office deduction:

- Is the specific area of the home that's used for business purposes used *only* for business purposes, not personal ones?
- Is the space used regularly and continuously for business?

If you can answer in the affirmative to these questions, you'll likely qualify. Of course should you have any questions, contact our office for assistance.

Phaseouts and Reductions: A Tax-Filing Reminder

As tax-filing season gets into full swing, there are many details to remember. One subject to keep in mind — especially if you've seen your income rise recently — is whether you'll be able to reap the full value of tax breaks that you've claimed previously.

What could change? If your adjusted gross income (AGI) exceeds the applicable threshold, your personal exemptions will begin to be phased out and your itemized deductions reduced. For 2016, the thresholds are $259,400 (single), $285,350 (head of household), $311,300 (joint filer) and $155,650 (married filing separately). These are up from the 2015 thresholds, which were $258,250 (single), $284,050 (head of household), $309,900 (joint filer) and $154,950 (married filing separately).

The personal exemption phaseout reduces exemptions by 2% for each $2,500 (or portion thereof) by which a taxpayer's AGI exceeds the applicable threshold (2% for each $1,250 for married taxpayers filing separately). Meanwhile, the itemized deduction limitation reduces otherwise allowable deductions by 3% of the amount by which a taxpayer's AGI exceeds the applicable threshold (not to exceed 80% of otherwise allowable deductions). It doesn't apply, however, to deductions for medical expenses, investment interest, or casualty, theft or wagering losses.

If your AGI is close to the threshold, AGI-reduction strategies (such as making retirement plan and Health Savings Account contributions) may allow you to stay under it. If that's not possible, consider the reduced tax benefit of the affected deductions before implementing strategies to accelerate or defer deductible expenses. Should you have any questions about your specific situation, give us a call.

Good Eats, Tax Breaks: Deducting Employee Meal Costs

Claim half or all

Generally, a business may deduct only 50% of the cost of business meals for federal tax purposes. But food provided to employees may be fully deductible in circumstances such as when meals are provided as additional compensation (and thus included in employees' taxable income), or qualify as tax-free de minimis fringe benefits.

You may also write off food, and exclude it from employees' income, if it's furnished for your convenience and on your premises.

Furnish with a purpose

Under IRS regulations, the "convenience of the employer test" is met only if meals are furnished for a "substantial noncom-pensatory business purpose". Although whether meals pass this test depends on the facts and circumstances of each case, the IRS has given examples of a number of acceptable conditions.

For instance, food provided to keep employees available for emergency calls during the meal period generally qualifies for the full deduction. But such calls must actually occur or be reasonably expected to occur.

Another example is when the nature of the employer's business tends to shorten a meal to, say, 30 to 45 minutes. The furnishing of meals, however, isn't considered to be for a substantial noncompensatory business purpose if a meal period is shortened in order to allow employees to leave early.

A third instance is when employees cannot otherwise secure proper meals within a reasonable period. The regulations state that meals are fully deductible under this test if there aren't enough eateries near the workplace.

Enjoy your meals

From a tax perspective, providing meals to employees can be deceptively simple. On face, the rules seem straightforward, but many exceptions and caveats apply. Be sure to segregate fully-deductible meals from 50% deductible meals in your accounting records. Of course, should you have any questions about classification, give us a call.

TAX CALENDAR

FEBRUARY & MARCH 2017

FEBRUARY 2017

February 10
Employees who work for tips. If you received $20 or more in tips during January, report them to your employer. You can use Form 4070.

February 15
Employers - For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in January if the monthly rule applies.

MARCH 2017

March 10
Employees who work for tips - If you received $20 or more in tips during February, report them to your employer. You can use Form 4070.

March 15
S Corporations - File a 2016 calendar year income tax return (Form 1120S) and pay any tax due. Provide each shareholder with a copy of Schedule K-1 (Form 1120S), Shareholder's share of Income, Deductions, Credits, etc., or a substitute Schedule K-1. If you want an automatic 6-month extension of time to file the return, file Form 7004 and deposit what you estimate you owe.

Partnerships CHANGE – File a 2016 calendar year income tax return (Form 1065) and pay any tax due. Provide each partner with a copy of Schedule K-1 (Form 1065), Partners' share of Income, Deductions, Credits, etc., or a substitute Schedule K-1. If you want an automatic 6-month extension of time to file the return, file Form 7004 and deposit what you estimate you owe.

Other helpful on-line services

www.IRS.gov - www.MyFlorida.com
&
www.Volusia.org