



Presented by St. Clair CPA Solutions

Federal Tax News

Winter 2017

Social Security "wage base" and benefits increase for 2018.

The Social Security Administration (SSA) has announced that the wage base for computing the Social Security tax in 2018 will increase to \$128,700. This is up from \$127,200 for 2017. For 2018, an employee will pay 6.2% Social Security tax on the first \$128,700 of wages. In addition, an employee will pay 1.45% Medicare tax on the first \$200,000 of wages and 2.35% Medicare tax on all wages in excess of \$200,000.

Meanwhile, the SSA announced that in 2018, Social Security beneficiaries will get a 2% increase in benefits. This is welcome news for retirees because beneficiaries only received a 0.3% increase in Social Security benefits in 2017 and no increase in 2016.

Should you dance the Roth IRA two-step?

If you're thinking about converting a traditional IRA into a Roth, you may be wondering if you should take the plunge now and pay tax on the conversion this year, or wait until 2018 when tax rates may be lower under the reform plan Congress may pass later this year. Fortunately, you can convert this year without worry. If rates are indeed lower next year under tax reform, you can use a recharacterize-and-reconvert strategy to shift the conversion's tax consequences from 2017 to 2018. Contact us for more information.

Court denies innocent spouse relief.

When a married couple files a joint tax return, each member is "jointly and severally" liable for the full tax. But a spouse might qualify for "innocent spouse" relief. The U.S. Tax Court ruled against a husband who sought relief, even though the couple was divorced and he was current on his own tax. The court noted that he had been the primary earner, was involved in the family finances and knew that unpaid tax debts existed from prior years. Therefore, he had reason to know that no taxes had been paid for the year in question. (Cojocar, TC Memo 2017-189)

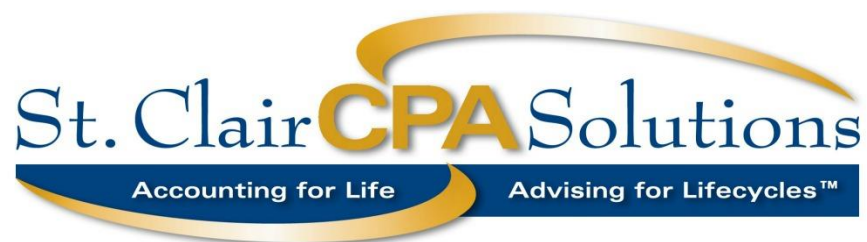
No business tax deductions were allowed for this gambler.

A taxpayer worked full-time as a tunnel bridge agent for a public authority. He frequently gambled at casinos and racetracks. However, he wasn't entitled to take Schedule C business deductions on his federal tax return for expenses he incurred as a "professional gambler." According to the U.S. Tax Court, the overall record showed that he wasn't a professional gambler who engaged in the activity for profit within the meaning of the tax code. The taxpayer only gambled in his spare time. (Boneparte, TC Memo 2017-193)

Court: Taxpayers don't have to pay self-employment tax.

The U.S. Tax Court ruled that a corporation, which paid its married sole shareholders both rent for farmland and wages for work they performed on the farmland, didn't owe self-employment tax on the rent. The couple owned 300 acres of agricultural land. They entered into an agreement with a large poultry producer, which paid rent to their chicken farm business. The decision reverses the court's holding in previous similar cases and follows the reasoning of the Eighth Circuit Court of Appeals. (Martin, 149 TC No. 12)

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