

The Tax Route

financial information for the long haul

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McGowen, Hurst, Clark & Smith, P.C.





Trumped U.S. Tax Reform

How President-Elect Trump's proposed tax reform may impact your taxes in 2017

With tax policy being a major issue during the 2016 presidential election, we expect significant tax reform in 2017. Below we highlight President-elect Trump's proposed tax policy should the Republican-controlled Congress approve.

Business

- 15% corporate tax rate rather than the current 35%.
- Election for 15% tax rate on passthrough business income regardless of size.
 - Large passthroughs may be subjected to a second level of tax on distributions to owners if the 15% rate is elected.
- Research credit would be retained; however, all other business tax credits would be repealed including the Domestic Production Activities Deduction (DPAD).
- Repeal the Alternative Minimum Tax (AMT).
- U.S. manufacturing firms may elect to deduct the full cost of capital investments in the year placed in service. However, businesses that elect to deduct the full cost of capital improvements will be unable to deduct their net interest expense related to the capital improvements
 - Congress has proposed deducting the full cost of both tangible and intangible assets, except for land, in the year placed in service.

Individuals

- Three proposed tax brackets of 12%, 25%, and 33%.
- Repeal of the 0.9% Medicare Hospital Insurance Tax.
- Repeal of the 3.8% Net Investment Income Tax.

- Either retain current capital gain rates or set the maximum rate at 20% with lower rates for individuals not in top brackets.
- Repeal the Alternative Minimum Tax (AMT).
- Limit itemized deductions to \$200,000 for joint filers and \$100,000 for single filers.
- Increase the standard deduction to \$30,000 for joint filers and \$15,000 for single filers with personal exemptions and the head-of-household status eliminated.
- Creation of pre-taxed dependent care savings accounts to be used for child care and/or elder care expenses.
- Elimination of the federal estate tax.

Although President Elect Trump will not be sworn into office until 2017, tax planning strategies for the upcoming year can begin today. In general, we recommend accelerating deductions in the current year and deferring revenues to next year, since the expected tax reform will most likely decrease your tax burden in future years. This will result in lower net incomes in 2016 when tax rates are higher and create higher net incomes in 2017 when rates are expected to be lower. Since every scenario is different, we recommend considering a tax projection to maximize strategic planning before year end and to ensure savings opportunities are not missed.

As always, we will keep you updated throughout 2017 on major tax reform that may impact your business or personal tax situations.



Return Filing Dates Have Changed

Change in tax return filing dates

Congress passed legislation in the summer of 2015 to modify due dates for tax years beginning after December 31, 2015. The chart below shows a listing of the new due dates for the upcoming 2017 filing season for 2016

tax returns. These new due dates provide a more logical order to provide relief from previous issues caused by the pass-through entity due date.

| Return Type | Prior Due Dates Original & Extended | New Due Dates Original & Extended |
|-------------------------------|----------------------------------------|--------------------------------------|
| Partnership Form 1065 | April 15 & Sept 15 | March 15 & Sept 15 |
| S Corporation Form 1120S | March 15 & Sept 15 | March 15 & Sept 15 |
| Trust & Estate Form 1041 | April 15 & Sept 15 | April 15 & Sept 30 |
| C Corporation Form 1120 | March 15 & Sept 15 | April 15 & Sept 15 |
| Individual Form 1040 | April 15 & Oct 15 | April 15 & Oct 15 |
| Exempt Organizations Form 990 | May 15, Aug 15 & Nov 15 | May 15 & Nov 15 |

Change in information returns filing dates

Due dates for forms W-2 and 1099-MISC have changed since the past filing season. If in 2016 an amount is present in box 7, forms W-2 and 1099-MISC are due to the IRS/SSA on or by January 31, 2017. These forms must also be provided to the taxpayer by January 31, 2017. All other 1099 forms are due to the IRS on or before February 28, 2017 if paper filed and March 31, 2017 if filed electronically. 2016 W-2 & 1099's are required to be filed electronically if 250 or more forms are to be filed.

The Iowa filing due date for the 2016 tax year is January 31, 2017 regardless of the remittance method to the state. Withholding agents with 50 or more employees must electronically file W-2 forms. Withholding agents with less than 50 employees may, but are not required to, file W-2 forms electronically. Withholding agents may, but are not required to, electronically file W-2G and 1099 forms. Beginning in 2018 for tax year 2017, all withholding agents are required to electronically file forms W-2, W-2G, and 1099 forms with the state of Iowa.



Client Spotlight: Panama Transfer

Traveling on the road to success with teamwork as their driving force

One might imagine that having 13 family members all working in the same business could be difficult, or at least challenging at times. But that doesn't seem to be the case at Panama Transfer. Co-owners and brothers-in-law Dean Kloewer and Mark Crall, along with their respective wives Colleen and Mona and several of their children, obviously know the key to successfully operating a family business. In one word, Dean says it all about **listening**. "We listen pretty good, and hear each other out," said Dean. "We try to keep an open mind and believe in talking things over." Well, whatever their business management style is... it's working, as Panama Transfer has experienced double-digit growth for several decades.

History

Located in northwest Iowa, Panama Transfer was purchased by brothers James and Don Kloewer in 1956. In the early years, the company's business consisted of two trucks transporting freight to and from Omaha, NE and to seven communities in western Iowa. Fast forward to 1992. Dean and Mark purchase the business from Jim Kloewer, Dean's dad, and the company is on the fast track with expanding facilities, territories and employees. Today, with a total of 145 tractors, 275 trailers and six terminal locations, Panama Transfer delivers all kinds of dry goods freight throughout Iowa and to contiguous states. While 90% of their loads are to businesses, especially delivering goods to manufacturers, they also deliver to farms and residents. "All of our customers are important to us, and we strive to provide excellent service each and every time," said Dean.

Since taking over the business, the brothers-in-law have implemented several new ideas and services to grow the family business. One of them is Partial Night Delivery. In an effort to expand and grow, Dean and Mark have developed relationships with other regional carriers and refer to them as "Marketing Partners" located in neighboring states. Panama

Transfer drivers transport the freight within their footprint and exchange trailers with a Marketing Partner who takes it to their final destination. "This is a win-win situation for all and enables the company to make sure shipments are on time - every time, and our drivers get to return home each night," said Mark. Other services they provide in addition to delivery and transportation are Storage Rental Units for trailers and Driver Services, where Panama Transfer will actually "hire-out" an experienced driver to assist another business.

According to Dean and Mark, they credit their real growth to their team members - 333 people strong. "We steer the ship, but it is our employees who make it go," said Mark. "Quite simply, our growth is through our people." With an extremely low turnover rate for the trucking industry, Panama Transfer knows the importance of providing a very competitive benefit package, excellent financial incentives, an open-door policy, and maintaining a family-friendly environment. They even have a Wellness Coordinator on staff who organizes walks/runs, conducts weight loss programs, produces a wellness newsletter and more. The company also provides complimentary fruit and healthy snacks twice a week for their team members.

A Piece of Advice From Dad

Although Jim Kloewer no longer runs the company, you can find him on site most days. "He just keeps an eye on the place," said Dean. However, his advice and legacy lingers on. Dean shared that in the early 80's, deregulation occurred, and because of increased competition and the introduction of new, larger carriers, they unfortunately lost a couple of their larger customers. Because these large customers comprised a big part of their market share, they had no choice but to lay-off drivers. Since that time, Jim encouraged Dean and Mark to make sure that no one customer makes up more than 3% of their gross revenue. And that is one piece

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Work Opportunity Tax Credit

Are you taking advantage of it?

The Work Opportunity Tax Credit (WOTC) is a Federal tax credit available to employers for hiring individuals from certain target groups who have consistently faced significant barriers to employment. The target groups are as follows:

- Qualified temporary assistance to needy families recipients, including certain long-term family assistance recipients
- Qualified veterans
- Qualified ex-felons
- Designated community residents
- Qualified summer youth employees
- Vocational rehabilitation referrals
- Qualified Supplemental Nutrition Assistance Program (SNAP) recipients
- Qualified Supplemental Security Income (SSI) recipients
- Qualified long-term unemployment recipient

The tax credit claimed by employers depends upon the target group of the individual hired, the wages paid to that individual in the first year

of employment, and the number of hours that individual worked. The tax credit ranges from \$1,200 to \$9,600 per employee, depending on the employee hired. A minimum of 120 hours must be worked in the first year of employment to receive the tax credit. There is no limit on the number of individuals an employer can hire to qualify to claim the tax credit.

In order to claim the WOTC for a new employee, an employer must do either one of the following:

- Obtain certification from a designated local agency (DLA) that the employee is a member of a targeted group on or before the day the individual begins work.
- Complete IRS Form 8850, "Pre-Screening Notice and Certification Request for the Work Opportunity Credit," on or before the day the individual is offered employment and submit the form to the DLA to request certification no later than 28 days after the individual begins work.

2016 Depreciation and Section 179 Guidelines

For 2016, the annual federal section 179 expense limitation is \$500,000 with a phaseout for asset additions that exceed \$2,010,000. Bonus depreciation will continue to be 50% of the cost of the new asset placed in service with no annual limit. Iowa does not couple with bonus depreciation. At this time Iowa has not coupled with the federal section 179 limits and phaseouts for the 2016 tax year. There is a slim chance Iowa will increase from the \$25,000 deduction with a \$200,000 phaseout.

Additionally, there are new rules surrounding qualified improvement property. Qualified improvement property is

any improvement to an interior portion of a non-residential real property that is placed in service after the building is originally placed in service and does not result in an enlargement of a building. If the building has been in service for more than 3 years, the improvement property will have a life of 15 years life. If the building has been in service for less than 3 years or if the lessor/lessee are related, the improvement property will have a 39 year life. Regardless of the life of the asset, qualified improvement property will be eligible for bonus depreciation.



Bad Debt Deduction

Deducting bad debts when they become worthless

If you are an accrual-based taxpayer and your customers don't pay their bills, Uncle Sam provides a last resort for business owners: You can deduct a bad business debt in the year it becomes worthless -- if you've tried everything to collect.

In order to get the write-off, you have to prove that the debt will not be paid. If you're lucky, there is a significant event that demonstrates a debt's worthlessness, such as the debtor's death or declaration of bankruptcy. Otherwise, your company has the responsibility for proving the worthlessness of the debt.

The IRS often challenges the timing of bad debt deductions, so it's important to build a solid case. Here are a few tips:

Document all the efforts you make to collect amounts owed by a debtor, including records of telephone calls, dunning letters and email communication.

Be persistent. Don't just send one letter and let it go at that.

Pursue bad debts quickly to ascertain whether recovery is possible. That's because a bad debt deduction must generally be claimed on the tax

return for the year it was sustained. You may not be able to take a loss in a later year.

Business or Personal?

Under the tax code, business bad debts are more advantageous than personal bad debts. In addition to claiming a full deduction for a business-related loan that goes bad:

1. You can write off the full amount against ordinary income (rather than as a short-term capital loss that may be limited to \$3,000 per year).
2. You can deduct a partial loss for a business bad debt. Personal debts can be deducted only if they are entirely worthless.

Bad debt bonus: The statute of limitations for bad debts is longer than the usual three-year time limit for most items on your tax return. In general, you can amend your tax return to claim a bad debt for seven years from the due date of the tax return for the year that the debt became worthless. For more information, talk with your tax adviser.

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Update on the Overtime Rules

The overtime rules reported on in the prior issue of The Tax Route have been temporarily halted. These rules, which were supposed to take effect December 1, 2016, would have doubled the maximum salary a worker can earn to still be eligible for mandatory overtime. It was expected to have a great impact on almost every industry of the U.S. economy.

On November 22, 2016, a federal judge issued an injunction to stop the Department of Labor (DOL) from implementing the overtime rules. The courts will determine whether the DOL had the authority to implement and validate this type of regulation. We will continue to keep you updated as more information becomes available.



Refinance Debt to Trim Costs

Take advantage of low interest rates

When interest rates are falling, take advantage of the dip to refinance your existing business debt and put more dollars in your pocket.

Of course, you can check to see if your bank can trim the interest rate on your mortgage by two or more percentage points. The loan origination fee and other closing costs may work out to a few points, but you might be able to recoup this amount in less than a year because of the interest rate savings.

But don't stop there.

If cash flow isn't a problem for your company, consider a different arrangement. Instead of reducing your monthly payments, refinance to reduce the term of your mortgage. Because of the lower interest rate, you may pay off your mortgage faster while keeping the same monthly payments.

Sometimes, businesses can profit by getting creative. For example, one medical group practice financed its own office building several years ago with a \$1 million mortgage at 10%. When rates dropped below 8%, they explored some refinancing options.

One of the partners in the practice owned a home with more than \$1 million in equity. The bank was more than happy to finance the doctor's residence. The doctor used the \$1 million he borrowed on his home at 7% to pay off the 10% loan on the office building.

The savings – 3% of \$1 million – equaled \$30,000 a year. The doctor's loan origination fee and other closing costs came to roughly 2

A Rule of Thumb

If you own mortgaged real estate or other property that you expect to keep for at least two years, refinance when rates drop by 2%. That way, you can reduce your monthly mortgage payments. Depending on the number of years left on the loan, you could end up saving thousands of dollars.

1/2 points or \$25,000. In the first few years, the physician more than recouped these charges from his interest savings.

Indeed, considering the 25-year term of the new mortgage, the effective annual cost of the refinancing was only \$1,000 per year.

So take another look at all your credit costs on buildings, machinery, equipment, inventory, accounts receivable and lines of credit to determine if you can save by refinancing.

Review all loan documents, as well as rates and collateral reported in the footnotes to your financial statements. Perhaps you can negotiate terms that reduce the collateral if you make loan payments promptly for a certain period.

Question the rates your bank offers you. Many people think that prime rates are for prime customers only. This is not the case. Try asking for the London Inter Bank Offered Rates (LIBOR), which are often cheaper than prime rates for a bigger customer with good credit. LIBOR is the rate which banks charge each other for loans.

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Client Spotlight Continued

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of advice that Dean and Mark have taken to heart.

Another core value at Panama Transfer is to be proactive. Mark said, "We know how important it is for our company to be proactive in all situations and issues, rather than reactive." An example of this is their state-of-the-art technology which keeps them on the cutting edge. "Even before it was mandatory, Panama Transfer had 'on-board' computers in every trailer," said Mark. "This greatly assisted us in making on-time deliveries and maintaining a level of service that our customers really appreciated."

Greatest Satisfaction

When asked what their greatest satisfaction has been throughout the years, Dean remarked, "Keeping the business a family business and watching it grow. In the last nine years we have doubled our revenue." In the future and as a 4th generation joins the business, Dean and Mark are hoping to increase market share by penetrating

their current Iowa footprint, as well as adding more "marketing partners."

Community

In 2001, Panama Transfer was named "Iowa Small Business of the Year" sponsored by the Small Business Administration. They are active in their community, church and make supporting other local businesses in Panama and throughout Shelby County a priority. Panama Transfer is committed to serving their customers and taking care of their employees and continues to be a valuable member of their community as they celebrate their 60th anniversary next year.

MHC&S has had the privilege of working with Panama Transfer for over 15 years, and we are excited to see what roads this strong and prosperous trucking company will be traveling on in the future. If you would like more information on Panama Transfer, please check out their website at panamatransfer.com.

State Tax Alerts

IOWA. The Iowa Department of Revenue has released new and amended administrative rules reflecting recently enacted legislation that establishes a statutory sales and use tax exemption for certain defined manufacturing inputs (replacement parts and supplies). These rules modernize and simplify the administration of the exemptions under the Iowa code.

ILLINOIS. The Illinois Independent Tax Tribunal issued its decision in *Waste Management of Illinois v. Illinois Department of Revenue* on October 3, 2016. The Tax Tribunal held that compressed natural gas is a taxable motor fuel under the Illinois Motor Fuels Tax Law (MFTL).



Our Trucking Team



Dan Schwarz, CPA/ABV Co-Managing Partner

Dan earned an Associate of Applied Science degree from Hawkeye Institute of Technology. In 1990, he joined McGowen, Hurst, Clark & Smith, P.C., and began work in the Business Advisory and Tax Services Division. Dan's area of expertise includes transportation, business valuation, family-held businesses and corporate finance. He has conducted presentations on valuation of closely-held business, business transition and corporate governance.

Dan is an Accredited Business Valuator (ABV). He is a member of the American Institute of Certified Public Accountants and the Iowa Society of Certified Public Accountants. He is a board member of the Iowa Motor Truck Association Allied Division.



Nick Finkenauer, CPA Senior Manager

Nick graduated from University of Northern Iowa with a Bachelor of Arts degree in Accounting and joined McGowen, Hurst, Clark & Smith, P.C., in 2012. Prior to joining MHC&S in 2012, Nick worked for a Big 4 firm and specialized with closely held companies and state and local taxes. Nick's area of expertise includes corporate and individual taxation, multi-state tax issues and business consulting, providing clients with top quality service to help them reduce their tax liability and achieve their business and personal goals.

Nick is a member of the American Institute of Certified Public Accountants, CPAmerica International, and the Iowa Society of Certified Public Accountants, where he has served on the Taxation Committee. Nick is a past graduate of the West Des Moines Leadership Academy and IMTA Leadership Academy. Nick is also the treasurer of Morsel Combat, a non-profit organization that benefits Meals from the Heartland.



Ashley Sly, CPA Supervisor

Ashley is a 2009 graduate of Buena Vista University with Bachelor of Arts degrees in both Accounting and Finance. Prior to joining McGowen, Hurst, Clark & Smith, P.C., in 2013, she had three years of experience at a national accounting firm and one year at a large law firm. Ashley is experienced in tax, providing expertise for small to mid-size businesses, especially those with a multi-state presence and in the industries of transportation, manufacturing and distribution.

Ashley is a member of the American Institute of Certified Public Accountants, CPAmerica International, and the Iowa Society of Certified Public Accountants, where she currently chairs the young professionals committee, LEAP.

In addition, Ashley is the current treasurer of the West Des Moines' Library Friends Foundation and a past graduate of the West Des Moines Leadership Academy. Outside of work, she enjoys spending time with her husband and young son.



About McGowen, Hurst, Clark & Smith, P.C.

With offices in West Des Moines and Winterset, McGowen, Hurst, Clark & Smith, P.C. is one of the oldest and largest local firms in Central Iowa. Founded in 1946, we celebrate over 70 years of providing our clients with accounting, auditing and business consulting expertise.

McGowen, Hurst, Clark & Smith is proud to be a member of CPAmerica International, an exclusive association of leading independent accounting firms. CPAmerica offers a wide pool of additional technical expertise to its member firms,

allowing us to offer you big firm opportunity with a small firm feel.

Mission: Providing outstanding, professional services while acting as proactive business partners with our clients. Providing a work environment that enables our firm members to achieve their personal and professional goals.

Values: Integrity. Excellence. Respect. Teamwork. Family. Fun.

In Trucking Territory this Quarter...

Nick Finkenauer and **Ashley Sly** attended the Iowa Motor Truck Association Management Conference on September 20 and 21 in Cedar Rapids, Iowa. They enjoyed informational sessions and a golf outing over the two days and were happy to see some friendly, familiar faces.

Nick Finkenauer completed the Iowa Motor Truck Association Leadership Class Program, which has been in

place for over 20 years and is the longest running leadership program within the trucking association network nationally. IMTA President Brenda Neville said, "We are pleased that Nick Finkenauer was able to provide leadership and insight to our organization through this program and we look forward to the continued support and involvement of Nick."

News from the IMTA

FMCSA, NHTSA Extend Time for Speed Limiter Comments
[CLICK HERE FOR MORE INFO](#)

ATRI Releases Findings on Fleet Fuel Economy and Fuel Usage
[CLICK HERE FOR MORE INFO](#)

Iowa Plans Automated Vehicle Mapping on I-380
[CLICK HERE FOR MORE INFO](#)

U.S. Freight Transportation Forecast: Continued Growth for Trucking
[CLICK HERE FOR MORE INFO](#)

News from MHC&S

FREE SEMINAR: Communication for Connection and Cooperation
Tuesday, December 13 | 7:30 - 9 am
[CLICK HERE FOR MORE INFO AND TO REGISTER](#)

FREE SEMINAR: Planning for Retirement - Getting A Step Ahead
Tuesday, January 10 | 7:30 - 9 am
[CLICK HERE FOR MORE INFO AND TO REGISTER](#)

