Tax Minimizers of Oregon Inc.

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ClientAdvisor
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Everyday Advice

"The hardest thing in the world to understand is the income tax."

– Albert Einstein
Theoretical physicist

Know when to amend your tax return

You filed your tax return, you even received your refund check, but you discover a mistake on your return. What should you do? Before you decide if amending your return is the right course of action, here are some things to consider.

If you are due a refund

If correcting the error or omission will result in a substantial additional refund, usually your best option is to file an amended return. However, there some caveats.

- Federal tax returns are typically subject to audit for three years after the original tax return due date, or the date the return was filed, whichever is later. If you file an amended return, the audit clock may change based on the amended return filing date and type of change requested.
- Amending a tax return could put a spotlight on you. You could get a visit from your local IRS examiner, especially for amended returns based on things like the Earned Income Tax Credit (EITC), small business income, and the Research Tax Credit for small businesses. Make sure you have the necessary records to substantiate your amended return.
- Amending one tax return may require you to amend others. Even a minor change may require you to make changes in other tax years. Ask yourself if it's worth the hassle.
- Making a change on your federal tax return may require you to file an amended state or local return, and that amendment may not necessarily work out in your favor.
- It can take as long as 1½ years for the IRS to review amended tax returns, though that is not typical.
- Timing is important. The deadline to file an amendment is generally the later of three years after the original return was filed, or two years after the tax for that year was paid.

If you owe additional taxes

If you discover errors on your tax return that will result in additional tax, you need to correct them and file an amendment along with the tax due.

If the IRS discovers your tax error before you, they will most likely add interest and penalty fees. So the sooner you file the amended return and pay the tax, the better.

While finding an error can be unsettling, rest assured the problem is fixable.♦

Contact Us

23345 SE Stark St.
Gresham, OR 97030
503-665-1040

3835 NE Hancock #101
Portland, OR 97212
503-281-0919

250 NW 6th
Redmond, OR 97756
541-923-1040
OBTP #B15756

IRSUPDATE:

Be sure it's really the IRS calling

Each year the IRS warns taxpayers about scams, many of which happen long after the tax season is over. Some taxpayers have encountered scammers who impersonate IRS officials in person, over the phone, or via email. Here are some ways for you to identify a real IRS employee.

- The IRS makes first contact with most taxpayers through regular mail sent via the U.S. Postal Service.
- The IRS does not threaten to involve law enforcement or immigration officials.
- The IRS does not call to demand immediate payment using specific methods. If you owe taxes, the IRS will first mail a notice to you.
- The IRS will instruct you to make your payment to the United States Treasury.
- In the rare case that an IRS agent visits you, ask him or her to produce two forms of official credentials: a pocket commission and an HSPD-12 card.

IRS-approved collection agencies accused of illegal practices

Earlier this year, the IRS announced they would begin using outside collection agencies to collect overdue federal tax debt. One of these agencies, Pioneer Credit Recovery Inc., was accused of suggesting risky strategies to indebted taxpayers, including withdrawing money from their 401(k)s, requesting loans from their employers or taking out second mortgages. While the IRS said it is comfortable with Pioneer's approach, the four senators who brought the allegations to light and IRS national taxpayer advocate, Nina E. Olson, disagreed with their tactics.

If you receive contact from the IRS, do not hesitate to call and get assistance. ♦

Questions to ask before paying off your mortgage

Making extra principal payments to retire a mortgage before the end of a 15- or 30-year term may seem like a no-brainer. After all, who wouldn't want to reduce that substantial debt and dispense with monthly principal and interest payments? But paying off a mortgage early may not be the best choice for every household. Here are five questions to consider.

Do you have high-interest credit card or loan debt?

If your credit card company is charging 15 percent on your outstanding balance, that means you can save 15 percent by liquidating that debt. So it makes sense to pay off high-interest accounts first, before putting extra funds toward your low-cost mortgage. This is especially important if you're in a higher tax bracket. Home mortgage interest is tax-deductible. Interest on consumer debt is not.

Have you established an emergency fund?

Life happens. If you haven't set aside funds in an easy-to-access "rainy day" account, you may be forced into additional debt when life's inevitable troubles come along. Build up that emergency account to cover at least a few months of living expenses before supplementing your mortgage payments.

Are you contributing to a retirement plan at work?

Many companies will match a certain percentage of funds contributed to a 401(k) retirement account. For example, your employer might match 50 percent of the money you contribute, up to a maximum of 6 percent of your salary. Don't pass up this offer. It's easy money, and it certainly earns a better return than dollars paid toward your mortgage principal.

Can you get a better return elsewhere?

Of course, the stock market is notoriously volatile, so paying off your mortgage instead of investing may help you sleep at night. But if you can handle the risks of a prudent investment, it may make sense to place a portion of your extra money there, especially if you won't need the money soon.

How's your cash flow?

Before you leave full-time employment and your paychecks are replaced by Social Security, pensions, or retirement accounts, calculate your retirement cash flow. Retiring without mortgage debt may be a wise financial goal for your family. But it's important to base your decisions on hard facts, not wishful thinking or uninformed advice.

Call us if you need help with this decision. ♦

Five home office deduction mistakes

If you operate a business out of your home, you may be able to deduct a wide variety of expenses. These may include part of your rent or mortgage costs, insurance, utilities, repairs, maintenance, and cleaning costs related to the space you use.

It can be a tricky area of the tax code that's full of pitfalls for the unwary. Here are some of the top mistakes people make.

1 Not taking it

This is probably the biggest mistake those with home offices make. Some believe the deduction is too complicated, while others believe taking a home office deduction increases your chances of being audited. While the rules can be complicated, there are now simple home office deduction methods available to every business.

2 Not exclusive or regular

The space you use must be used exclusively and regularly for your business. *Exclusively:* If you use a spare bedroom as a business office, it can't double as a guest room, a playroom for the kids, or a place to store your hockey gear. Any kind of non-business use can invalidate the deduction. *Regularly:* It should be the primary place you conduct your regular business activities. That doesn't mean that you have to use it every day, nor does it stop you from doing work outside the office. But it should be the primary place for business activities such as recordkeeping, billing, making appointments, ordering equipment, or storing supplies.

3 Mixing up your other work

If you are an employee for someone else in addition to running your own business, be careful in using your home office to do work for your employer. Generally, IRS rules state you can use a home office deduction as an employee only if your employer doesn't provide you with a local office where you can work. Unfortunately, this means if you run a side business out of your home, you cannot also bring work home from your employer's office and do it in your home office. That could invalidate your use of the home office deduction.

4 The recapture problem

If you have been using your home office deduction, including depreciating part of your home, you could be in for a future tax surprise. If you later sell your home, you will need to account for this depreciation. This depreciation recapture rule creates a possible tax liability for many unsuspecting home office users.

5 Not getting help

There are special rules that apply to your use of the home office deduction if:

- You are an employee of someone else.
- You are running a daycare or assisted living facility out of your home.
- You have a business renting out your primary residence or a vacation home.

The home office deduction can be tricky, so be sure to ask for help, especially if you fall under one of these rules. ♦

Your Tax Calendar

September 15

- ☐ Third installment of 2017 individual estimated tax is due.
- ☐ Extended filing deadline for 2016 calendar-year tax returns for S corporations and partnerships.

October 16

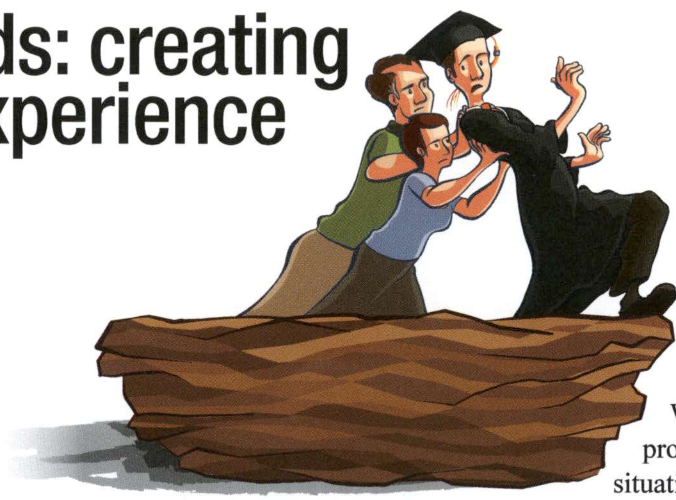
- ☐ Extended filing deadline for 2016 individual tax returns.
- ☐ Extended deadline for filing 2016 calendar-year tax returns for C corporations.
- ☐ Deadline for re-characterizing a Roth to a regular IRA.

During November

- ☐ Estimate your 2017 income tax liability and review your options for minimizing your taxes. Call to schedule a tax planning review.

Tax Minimizers of Oregon Inc.
333 SE 223rd #104
Gresham, OR 97030

Boomerang kids: creating a rewarding experience



A mounting phenomenon is hitting America as an unprecedented number of young adults are returning home to live with their parents. The trend is becoming so well-known that today's young adults have been labeled "the Boomerang Generation."

With high unemployment and record levels of college debt, the Boomerang Generation is struggling to make it on their own. Today's parents are also more willing to help their kids out financially and emotionally than were prior generations. In the 1940s, 18 year-olds were fighting wars in Europe or the Pacific. Today they are often fighting to dig themselves out of a financial hole, and their parents are increasingly ready to help.

So what to do if you find yourself in a boomerang situation? Here are suggestions that may turn a potentially uncomfortable situation into a rewarding experience.

Get to the root

Discover your boomerang kid's fundamental motive for returning to live at home and set reasonable expectations. Trouble finding a job is one reason, but breaking up with a boyfriend or girlfriend is quite another. Is your child saving money for a new home? Is he or she going through a divorce? Trying to pay off debt? Perhaps your child just needs a little emotional stability.

Talk it over

Have a serious discussion before your child rejoins the household. Both parties need to make sure the return home will not stifle the child's motivation or professional career development.

Set expectations

Establish some important guidelines up front, such as the expected time frame of the stay, how household duties will be shared, guest policy, and what the curfew will be. Decide if your child will pay rent or help with grocery and utility bills. If your child is attempting to reduce or eliminate personal debt, make it clear if and how much you are willing to help out. If appropriate, consider putting everything in writing.

While there are many inherent problems in a boomerang situation, there can be wonderful opportunities as well.

Benefits of the boomerang

- A boomerang kid can take the opportunity to develop marketability as an employee by taking an unpaid internship or volunteering to help others, without the worry of paying fully for his or her own home.
- A boomerang kid can save money for future goals.
- Parents get help around the house as they age.

There is a reason many cultures value the benefits of multi-generational living. The wisdom of experience is passed from one generation to the next and the healthy bond established between generations helps all ages. While it may be less common in the U.S., if managed properly, the boomerang experience could bring its own rewards.♦