U P D A T E

Margaret McDeed, Editor

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Dwight Darby & Company

Certified Public Accountants

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TAX IMPLICATIONS OF DISASTER-RELATED CASUALTIES

Dave Bove

Hurricane Irma left many homeowners and businesses with major, unprecedented damage. In addition to widespread property loss, disasters can have tax and other financial implications. A new law was signed by President Trump on September 29 known as the Disaster Tax Relief and Airport and Airway Extension Act of 2017. It provides valuable tax breaks for recent hurricane victims. Here are details of the new law and other information to help if you suffered losses due to Hurricane Irma.

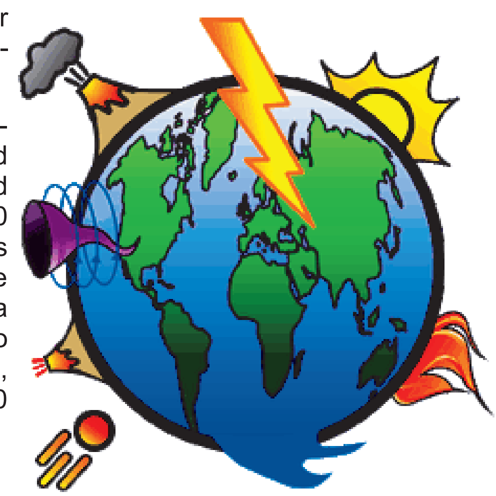
New law provides bigger personal casualty loss write-offs

You can claim tax deductions for personal casualty losses to the extent they are not covered by insurance. For federal tax purposes, you suffer a casualty loss when your property's fair market value is reduced or obliterated by a sudden event such as a hurricane, flood, storm, fire or earthquake. Property losses due to theft or vandalism are also considered casualty losses.

Personal casualty loss deductions are generally significantly less than what taxpayers expect – or may be nothing at all – due to limitations in tax law. But the new law loosens the restrictions to allow Hurricane Irma victims larger deductions.

Normally, you must reduce the loss amount (after offsetting it by applicable insurance proceeds) by $100. Under the new law, this $100 limitation per casualty is increased to $500. However, even though this amount went up, eligible victims can claim a larger deduction as described below.

- Generally, you must further reduce your loss by 10% of your adjusted gross income (AGI) for the year you would claim the loss on your tax return. Under the new law, this requirement is eliminated for Hurricane Irma losses.
- You normally do not get a deduction if you do not itemize. But under the new law, this requirement is eliminated for eligible hurricane victims so even non-itemizers get a deduction.



***Example**:* You incurred a $30,000 personal casualty loss, had AGI of $150,000 and itemized deductions. Your allowable deduction would have been only $14,900 ($30,000 minus $100 minus $15,000). (If instead your loss was $15,100 or less, you would have gotten no write-off at all). Under the new law, if you sustain a $30,000 qualified disaster-related loss due to Hurricane Irma on or after September 4, 2017, your allowable deduction will be $29,500 ($30,000 minus $500).

RECENT BREACH HIGHLIGHTS THE VULNERABILITY OF YOUR PERSONAL DATA

Dawn Lopez

Equifax, one of the nation's three major credit reporting agencies, recently reported a massive data breach. Are you among the 143 million U.S. consumers whose personal information was hacked? Here's how to find out — and how to help protect yourself against future breaches.

What Went Wrong?

On July 29, Equifax discovered that, starting in mid-May, criminals had exploited a vulnerability in a website application. Although management took immediate action to stop the attack, hackers had already gained unauthorized access to millions of consumers' names, Social Security numbers, birth dates and addresses, along with thousands of credit card numbers and credit dispute documents that contained sensitive personal information. The attack affected individuals in the United States, Canada and the United Kingdom.

Equifax immediately launched a forensic investigation and began working with law enforcement officials to discover the source and scope of the breach. Equifax has also responded by offering a free year of identity theft protection and credit file monitoring to all U.S. consumers.

Has Your Personal Data Been Breached?

Go to Equifax's website and click on the "Potential Impact" tab to find out if your personal information has been compromised. The website also allows you to sign up for free data protection and credit monitoring services — regardless of whether you were affected by this particular incident.

Important note: The link requires you to enter personal information. So, access it using only a secure computer and an encrypted network connection.

After you request to enroll in the free service, the website will provide you with an enrollment date. Write down the date and come back to the site and click "Enroll" on that date. You have until November 21, 2017, to enroll for the free services. In addition to the website, Equifax plans to send direct mail notices to consumers whose credit card numbers or dispute documents were breached.

What Should You Do If a Breach Occurs?

If you suspect a data breach, help protect your identity from thieves and minimize losses by taking these steps:

Call the relevant companies if you suspect that a breach has occurred. Ask for the fraud department and explain the incident. Then change log-ins, passwords and PINs to minimize your losses.

Consider freezing your credit. A credit freeze makes it harder for someone to open a new account in your name. Keep in mind that a credit freeze won't prevent a thief from making charges to your existing accounts, however. Alternatively, consider placing a fraud alert to warn creditors that you may be a victim of ID theft. Fraud alerts are free from all three major credit reporting agencies and last for 90 days. After the 90-day window, you can renew a fraud alert, if necessary.

Obtain free annual credit reports from Equifax, Experian and TransUnion. Identity theft usually results in accounts or activity that you won't recognize.

Ongoing Protection

ID theft often happens long after your personal information has been stolen, so don't allow yourself to be lulled into a false sense of security after your initial response. Ongoing credit monitoring is essential. Proactive consumers continue to watch credit card and bank accounts closely for unusual activity. They also file their taxes as early as possible — before a scammer can.

If your personal data was exposed in the Equifax attack or it's affected by another breach, contact your financial and legal advisors to guide you through the recovery process.

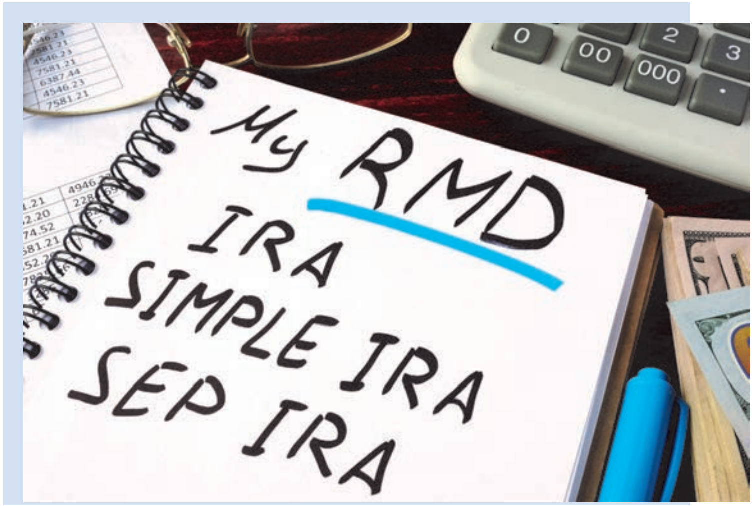
REQUIRED MINIMUM DISTRIBUTONS - WHAT YOU SHOULD KNOW ABOUT RETIREMENT PLANS

Susan Ghaly

Required minimum distribution (RMD) rules apply to all employer sponsored retirement plans, including pension and profit sharing plans, 401(k) plans, 403(b) plans for non profit organizations and 457(b) plans for government entities.

According to IRS rules, people must generally begin taking required minimum distributions (RMDs) from their retirement plans beginning after age 70½. Once begun, RMD's must be made annually without fail. This article answers the questions of when to begin taking RMDs, the penalties for not taking them and why it is best not to wait until year end to take them.

When should you begin taking distributions?



The required beginning date for RMD's is April 1 of the year after the year in which you turn age 70½. For each subsequent year after your beginning date, you must withdraw your RMD by December 31. You should be aware that delaying your first RMD until April 1 of the following year would result in two RMD withdrawals for that tax year.

For example, if Mark reaches age 70½ by July 1, 2016, he could either take his <u>2016</u> required minimum distribution by December 31, 2016 or wait until April 1, 2017 for it. In either case, he will be required to take the <u>2017</u> distribution by December 31, 2017. If he receives the initial required minimum distribution for 2016 on April 1, 2017, then both his 2016 and 2017 distributions will be included in income on his 2017 tax return.

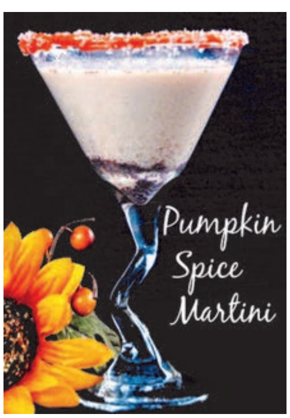
What's the penalty for failing to take RMD's?

If you do not take any distributions, or if the distributions are not large enough, there is a <u>50%</u> excise tax on the amount not distributed as required. For example, if you are required to withdraw $20,000 this year and only take out $5,000, the excise tax is $7,500 (50% of $15,000). This excise tax is <u>in addition</u> to regular income tax that will still be required on the distributions when actually taken.

Don't procrastinate!

Many taxpayers wait until December 31 to take the RMD from their qualified plans and IRAs. That could be dangerous! It is easy to get distracted during the holiday season and forget about the obligation. Furthermore, it typically takes several days for trading and settling funds. A better approach is to make arrangements for RMDs well in advance of the December 31 deadline.

Just for fun…. Fall Pumpkin Spice Cocktail! A Dwight Darby Favorite!



Vodka – Vanilla flavor
1 (1.5 fluid ounce) jigger Irish cream liqueur
1 (1.5 fluid ounce) jigger pumpkin flavored liqueur
1 cup ice cubes
1 pinch ground cinnamon
1 pinch ground nutmeg

Directions

Prep: 5 minutes

Pour the vanilla flavored vodka, Irish cream liqueur, and pumpkin flavored liqueur into a cocktail shaker over ice. Cover, and shake until the outside of the shaker has frosted. Strain into a chilled martini glass, and garnish with a sprinkle of ground cinnamon and ground nutmeg to serve.

Continued from page 1

Special rule for federal disaster areas

If a loss is caused by an event in a federally declared disaster area, then a special rule allows you to claim your deduction either this year (when the casualty occurred) or last year (the year before the casualty occurred). For a complete list of eligible counties declared as disaster areas, please visit irs.gov/newsroom/help-for-victims-of-hurricane-irma.

That means Hurricane Irma victims can file amended 2016 returns to claim personal casualty deductions last year and get tax refunds. Thus, disaster victims can obtain quick federal income tax savings instead of having to wait until after filing next year.

Business casualty loss write-offs

If you have disaster losses to business property, you can deduct the full amount of the uninsured loss as a business expense on your entity's tax return or on the appropriate Form 1040 schedule if you operate as a sole proprietor. As with personal casualties, you can opt to claim 2016 deductions for 2017 losses in a federally declared disaster area.

Beware of taxable involuntary conversion gains

If you have insurance coverage for disaster-related property damage – under a homeowners, renters or business policy – you may actually have a taxable gain instead of a deductible loss. This can result if the insurance proceeds exceed the tax basis of the damaged or destroyed property. In this case you have a taxable profit under the tax law. This is true even if the insurer does not fully compensate you for the pre-casualty value of the property. These are known as "involuntary conversion gains" because the casualty causes your property to suddenly be converted into cash from insurance proceeds.

Example: Your vacation home was destroyed by the hurricane. The insurance company pays $400,000 for the loss. Your tax basis is only $250,000. For tax purposes, you have a $150,000 involuntary conversion gain.

When you have an involuntary conversion gain, you generally must report it as taxable income unless you make:

1. Sufficient expenditures to repair/replace the property
2. A special tax election to defer the gain.

If you make the gain-deferral election, you will have a taxable gain only to the extent the insurance proceeds exceed what you spend to repair/replace the property. The expenses generally must occur within the period beginning on the damage or destruction date and ending two years after the close of the tax year in which you have the involuntary conversion gain.

Special principal residence rules

For federal tax purposes, special rules apply to involuntary conversion gains on principal residences. For this purpose, principal residence means the place has been your main home for at least the last two years. Some benefits depend on whether you own your principal residence.

For a principal residence you own. You should be able to use the federal exclusion tax break to reduce or eliminate involuntary conversion gain. The maximum gain exclusion is $250,000 for unmarried homeowners and $500,000 for married joint-filing couples. To qualify for the maximum exclusion, you must have owned and used the property as your main home for at least two of the last five years. If you still have a gain after the gain exclusion tax break, you have four years (instead of the normal two years) to make sufficient expenditures to repair or replace the property and thereby avoid a taxable involuntary conversion gain – if your residence was damaged or destroyed by an event in a federally declared disaster area.

For a home you rent or own. If contents in your principal residence were damaged or destroyed by an event in a federal disaster area, there is no taxable gain from insurance proceeds that cover losses to unscheduled personal property (called "contents coverage"). In other words, you do not need to repair or replace contents to avoid a taxable involuntary conversion gain. You can do whatever you want with insurance money from unscheduled personal property coverage without tax concerns. This beneficial rule applies whether you own your principal residence or not.

Please contact us if you incurred a major property loss.

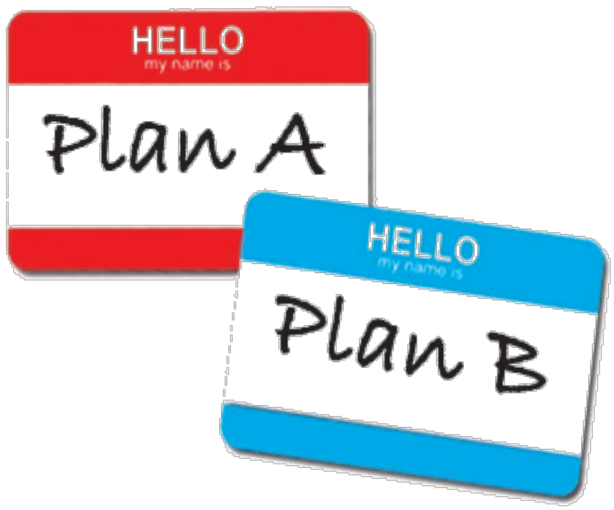
WWW.DWIGHTDARBY.COM

GETTING TO KNOW THE "PARTS" OF MEDICARE

Pam Mattox

Medicare is the federal health program for qualifying people 65 or older and people under 65 with certain disabilities. Part A is the hospital insurance. Part B is the medical insurance. Part C medical advantage plans are a private insurance option for covering hospital and medical costs. Part D covers prescription medications. Parts F and G are Medicare Supplement plans and are sometimes referred to as Medigap.

Part A is for hospitalization only and for most individuals will not carry a premium. (There are situations in which



individuals under the age of 65 with certain disabilities will also qualify.) Part B carries a premium, and pays for medically necessary services (and supplies) and preventive services. And includes, doctor visits, lab tests, outpatient procedures, etc.

When you are first eligible for Medicare, you have a 7 month initial enrollment period to sign up for Part A and/or Part B. The 7-month enrollment period begins 3 months before the month you turn 65, includes the month you turn 65 and ends 3 months after the month you turn 65. If you are receiving Social Security or Railroad Retirement Benefits at least 4 months prior to turning 65 you do not need to file a separate application to become entitled to part A and Part B benefits. You will be automatically enrolled.

If you do not sign up for Medicare when you are first eligible, you may have to pay a late enrollment penalty. This penalty is for as long as you have Part B coverage. The penalty is usually 10% for each full-12 month period that you could have had Part B, but did not sign up for it. Also, if you miss the date you will probably have to wait to the general enrollment period which is January 1 to March 31 each year to enroll in Part B. And, you coverage will not begin until July 1 of that year.

The Part B enrollment penalty does not apply if you did not enroll because you were still working and were covered under a group health plan of your own or a spouse. You can enroll at any time while you are under the group health plan or during the 8 month period that begins the month the employment ends or the group health plan ends, whichever comes first.

Part B premiums, on average, range from $109 to $134 a month depending on your particular circumstances. And, can be paid directly from your Social Security check.

After you enroll for Part B, there are still decisions to make as to which medical plan is right for you. Part B will pay 80% of the Medicare approved amounts. You either pay for the remaining 20% out of pocket through traditional Medicare coverage alone, or you can pick a Part C Medicare Advantage plan in which a private health insurance company provides coverage, does not have an additional premium, but does have out of pocket amounts that you pay for certain services or you can purchase through what is referred to as Part F or G a Medicare Supplement plan to pay the remaining 20%. Under these Part F and G plans, you typically pay a flat premium and the supplemental plan pays all copays and deductibles.

Medicare prescription drug plan (Part D) is offered to everyone with Medicare. If you do not enroll when you are first eligible and decide to obtain coverage later you will have to pay a late enrollment penalty unless you had other prescription drug coverage. Part D plans have a coverage gap, referred to as the "donut hole". This refers to the temporary limit on what your plan pays for prescription medication. In 2017, the donut hole is $3,700. While in the donut hole you will be responsible for a percent of drug costs.

The above is just a summary of what you need to know about Medicare. Make sure and educate yourself, so that you can make good decisions when it is time to join Medicare.

- **Be on the lookout for the 2017-2018 Tax Planning Guide -available now on our website at www.dwightdarby.com.**
- **The 2017 Tax Organizer will be mailed the beginning of January.**
- **DDC is using a new email service to send or receive sensitive and personal information - the new service is LeapFile and will appear as such. Be sure to check your spam/junk folder when receiving files from DDC.**

Closing Entries

ANNIVERSARIES

The following Dwight Darby & Company employment anniversaries will be occurring this winter:

Kathy Tushaus – 23 years in February

Bill Dennison – 14 years in February

Pam Mattox – 10 years in January

Dave Bove – 7 years in January

Holiday Office Hours

The office will be closed for the following holidays:

Thanksgiving: Thursday, November 23th and Friday November 24th

Christmas: Friday, December 22nd and Monday, December 25th

New Year's: Monday, January 1st and Tuesday, January 2nd

Dwight Darby & Company wishes everyone a Happy Holiday season!

This newsletter is published for our clients and other interested persons. Since this information may be of a technical nature, no final decision should be made without first consulting our office.

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To receive this newsletter in electronic format, please send an email to **cpa@dwightdarby.com** with the words "mailing list" in the subject line. Please also let us know if you are a business, individual, or both.