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## Newsletter

We hope you are enjoying the summer months. We appreciate your business and look forward to assisting you with your future tax planning needs.

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### Newsworthy for July 2017

As a reminder for those clients whom we process quarterly payroll tax returns, Federal 941 and NYS-45 are due July 31st.

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### Summer 2017 Helpful Tax Hint #2: How Long Should You Keep Tax Records?

Many clients have asked us how long they should keep their documents. The IRS says the following regarding the period of limitations that apply to income tax returns:

1. Keep records for 3 years if situations (4), (5), and (6) below do not apply to you.
  2. Keep records for 3 years from the date you filed your original return or 2 years from the date you paid the tax, whichever is later, if you file a claim for credit or refund after you file your return.
  3. Keep records for 7 years if you file a claim for a loss from worthless securities or bad debt deduction.
  4. Keep records for 6 years if you do not report income that you should report, and it is more than 25% of the gross income shown on your return.
  5. Keep records indefinitely if you do not file a return.
  6. Keep records indefinitely if you file a fraudulent return.
  7. Keep employment tax records for at least 4 years after the date that the tax becomes due or is paid, whichever is later.
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## Education Tax Benefits

If you pay tuition, fees, and other costs for attendance at an eligible educational institution for yourself, your spouse, or your dependent, you may be able to take advantage of one or more of the education tax benefits.

You can claim more than one education benefit in a tax year as long as you do not use the same expenses for more than one benefit.

### Education Deductions:

Deductions reduce the amount of income subject to income tax. Deductions for education expenses include:

- Tuition and fees deduction up to \$4,000 from gross income if you meet the income guidelines. For parents to claim this deduction, they must pay the tuition and fees for their child, and they must claim the child as a dependent. The deduction for tuition and fees cannot be taken for the same student in the same year as any other education tax credit. Additionally, the same expenses cannot be used as qualified expenses for tax-free treatment of savings plan distributions (such as from a 529 plan) and the deduction for tuition and fees or the education credits.
- Student loan interest deduction up to \$2,500 from gross income if you meet the income guidelines.
- Business deduction on Schedule C or F. You can deduct the cost of education related to the business or farm activity.
- Miscellaneous itemized deduction on Schedule A, subject to 2% AGI limitation. You can deduct the unreimbursed cost of education required to keep your current job or maintain and improve skills needed for your job. You cannot deduct the cost of education that qualifies you for a new trade or business.

### Education Tax Credits:

Tax credits reduce the amount of income tax you may have to pay if you meet the income guidelines.

- American Opportunity Credit, \$2,500 maximum per student per year.
- Lifetime Learning Credit, \$2,000 maximum per tax return per year.

You may claim only one of the following education tax benefits for the same student per year: tuition and fees deduction, American Opportunity Credit, or Lifetime Learning Credit.

**Penalty-Free IRA Distributions:**

If you withdraw money from your IRA before you are age 59 1/2, you are generally subject to a penalty of 10% of the distribution, in addition to any tax that may be due on the distribution. The 10% penalty does not apply to traditional IRA or Roth IRA withdrawals, if you use the money to pay qualified education expenses for yourself, spouse, or for any child or grandchild of yourself or your spouse.

- Qualified education expenses include tuition, fees, books, supplies, equipment, and special needs services required for enrollment or attendance at an eligible educational institution. Room and board for students enrolled at least half-time in a degree or certificate program may also qualify.
- If the student receives a scholarship or any other tax-free assistance (such as a 529 distribution), this will reduce the amount of qualified expenses. Gifts or inheritances do not reduce this amount.

**Gifts from Relatives or Others for Tuition:** Relatives or others can pay tuition directly to a school, free of gift tax. This payment doesn't count against the \$14,000-per-donee annual gift tax exclusion or the lifetime estate tax exemption. It can be a nice present for a college student.

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## Reasons to Stick With a Tax Professional

Having a tax professional saves you time and money. Like it or not, tax season comes around each and every year. And with it comes annual changes to the tax law, making it more and more complicated. Therefore, it's important to rely on a tax professional to guide you through filing your taxes. This not only saves you time, but also money.

We welcome the opportunity to serve you year after year. Below, we've detailed some of the reasons why it's important to stick with a tax professional rather than self-preparing your return.

- **You Save Money:** Tax professionals are educated on the various deductions that you can take on your return. Spotting even the tiniest deduction can save you big money on your return and get you the largest refund possible.
- **You Save Time:** It goes without saying-time is money. Some returns can take countless hours to calculate. Save yourself the hassle of preparing your own return by turning to an expert.
- **The Tax Code is Tricky:** The tax law is in a state of flux. With more changes on the horizon, it's important to rely on the services of a tax professional whose job it is to stay current and informed on all the changes.

- **Mistakes Can Be Costly:** Ensuring that your return has the proper deductions and is calculated accurately is your tax professional's job. Incorrect reporting of deductions or income can create substantial financial and legal implications. Avoid your chances of audit by using a tax professional.
- **We Can Help You Make Tax-Saving Decisions:** By turning to the services of a tax professional, you're able to receive tax-saving advice throughout the year. We are here to work with you through tax season and beyond.
- **Protection From Audits:** If you receive a letter from the IRS or find out that you're being audited, you can always turn to your tax professional for expert advice on how to resolve the issue. This keeps you secure and properly represented.

As always, we are here to help, and look forward to serving you.

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## Summer Office Hours

Please note that our office will be closed the following weeks:

July 31 - August 4th

August 28th - Sept 5th

Our regular office hours for the summer are Monday - Thursday 9 am - 2 pm. Please feel free to contact the office if you need our assistance outside of these hours, and we will make alternate arrangements for you.

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As always, if you have any questions, or need additional information, please contact our office.

**Sincerely,**

Zulch Tax Consultants & Accountants