# Supplement to J.K. Lasser’s Small Business Taxes 2017

###### By Barbara Weltman

The tax law is not static. Since publication of the 2017 edition of *J.K. Lasser’s Small Business Taxes*, there has been action by Congress, the IRS, and the courts which impact your 2016 return as well as your tax withholding and estimated taxes for 2017. It should be noted that tax reform, which could be completed this year, may effectively change information in the book and this Supplement. For small business owners, it is important to take action based on what is known now, and to watch for any tax changes that may affect your business and personal taxes in the future. Pay attention to *what* is new and *when* it goes into effect.

The changes presented in this supplement are tied to the chapters in the book.

## Chapter 1—Business Organization

***Examples of tax definitions of small business.*** For 2017, the first-year expense (Section 179 deduction) applies to equipment purchases up to $510,000. However, this dollar limit phases out dollar for dollar when purchases for the year exceed $2,030,000. Thus, no expensing deduction can be claimed if equipment purchases for the year are $2,540,000.

 Starting in 2017, small businesses can use qualified small employer health reimbursement arrangements (QSEHRAs) to reimburse employees for the cost of the premiums for their individually-obtained health coverage. For purposes of QSEHRAs, small businesses are those with fewer than 50 full-time and full-time equivalent employees.

***Forms and schedules.*** When this edition was published, final versions of forms were not yet available. Find final versions of forms and schedules at [www.irs.gov/Forms-&-Pubs](http://www.irs.gov/Forms-%26-Pubs).

## Chapter 4—Income or Loss from Business Operations

***Income from the sale of goods.*** There have been no legislative developments regarding LIFO method for inventory. *A Better Way* (the Ways and Means blueprint for tax reform) at <https://abetterway.speaker.gov/_assets/pdf/ABetterWay-Tax-PolicyPaper.pdf> would preserve the LIFO method of inventory.

***Income from farming.*** The IRS has extended the livestock replacement period for certain drought-affected areas. Counties for 2016 can be found in Notice 2016-60.

***Income earned abroad.*** The time requirement for the foreign earned income exclusion is waived for certain countries. The list of countries for 2016 has not yet been released.

## Chapter 5—Capital Gains and Losses

***Tax-free exchanges.*** As yet, there has been no legislative developments to eliminate tax-free exchange treatment.

## Chapter 7—Employee Compensation

***Adoption assistance.*** For planning purposes, the dollar limit on the exclusion for employer assistance for adoption costs in 2017 is $13,570.

***Health reimbursement accounts (HRAs).*** The 21th Century Cures Act extended relief referenced in the “CAUTION” sidebar through the end of 2016. Starting in 2017, there is a new type of HRA for health insurance, which is explained in Chapter 19 (see QSEHRAs).

***Flexible spending accounts for medical expenses.*** For planning purposes, the maximum elective deferral to medical FSAs in 2017 is $2,600, which is $50 more than in 2016.

***Employee use of company car.*** For planning purposes, in valuing employee use of a company car in 2017, the IRS standard mileage rate is 53.5¢ per mile.

Employers using the cents-per-mile valuation rule for employee use of a company car can do so in 2017 only if the value of the car on the first day it is made available to the employee does not exceed $15,900 ($17,800 for a truck or van). If the fleet valuation rule is used, the maximum value is $21,100 ($23,300 for a truck or van).

The fixed and variable rate allowance (FAVR) in 2017 is limited to a standard automobile cost not exceeding $27,900 ($31,300 for trucks and vans).

***Qualified transportation fringe benefits.*** The monthly exclusion for free parking, transit passes, and van pooling for 2017 is $255, which is the same as in 2017.

***Frequent flyer miles.*** To date, the IRS has not taken any action to tax frequent flyer miles.

***Empowerment zone employment credit.*** The 20% credit for hiring certain workers expired at the end of 2016. Whether it will be extended to 2017 is uncertain.

***Indian employment credit.*** The 20% credit for hiring certain employees expired at the end of 2016. Whether it will be extended to 2017 is uncertain.

***Employment tax credits in all businesses.*** As noted above, the following credits apply do not apply for 2017 unless extended by Congress: the empowerment zone credit and the Indian employment credit.

***Chapter 8—Travel and Entertainment Expenses***

***Business travel per diem rates.*** The maximum federal per diem rate for travel starting October 1, 2016, through September 30, 2017, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is $142 per day ($91 for lodging and $51 for M&IE). These rates are higher than the prior 12-month period when the rate was $140 per day ($89 for lodging and $51 for M&IE). The per diem rates for travel to certain areas have been increased. These rates can be found at [www.gsa.gov](http://www.gsa.gov) (click on Per Diem Rates).

The high-low substantiation rates for areas within CONUS for the period October 1, 2016, through September 30, 2017, are $282 for travel to high-cost localities and $189 for travel to all other areas with CONUS. Of these rates, the meal portion is $68 for high-cost areas and $57 for all other areas within CONUS. The list of high-cost areas has been changed (see Notice 2016-58 for details).

***Chapter 9—Car Expenses***

***Section 179 deduction.*** For 2017, the first-year expense (Section 179 deduction) applies to equipment purchases (e.g., new vehicles) up to $510,000. However, this dollar limit phases out dollar for dollar when purchases for the year exceed $2,030,000. Thus, no expensing deduction can be claimed if equipment purchases for the year are $2,540,000. However, passenger cars, light trucks, and vans are subject to dollar limit. The first-year dollar limits for passenger cars placed in service in 2017 have not yet been announced; they historically are announced in February. The first-year limit for new vehicles placed in service in 2017 will be increased by $8,000, reflecting bonus depreciation. Heavy SUVs are not subject to the dollar limits, but the first-year expense deduction is limited to $25,000.

***Standard mileage rate.*** The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving; for 2017 it is 53.5¢ per mile (down from 54¢ per mile in 2016).

Those who own their vehicles and use the standard mileage rate for 2017 must reduce the vehicle’s basis by 25¢ per mile; it was 24¢ per mile in 2016.

***Credit for electric vehicles.*** The credit for 2-wheeled electric vehicles expired at the end of 2016. Whether it will be extended to 2017 is uncertain.

## Chapter 10—Repairs, Maintenance, and Energy Improvements

***Deduction for energy-efficient commercial buildings.*** The $1.80 per square foot deduction for commercial buildings that achieve at 50% energy-saving target expired at the end of 2016. Whether it will be extended to 2017 is uncertain.

***Alternative fuel vehicle refueling property credit.*** This credit expired at the end of 2016. Whether it will be extended to 2017 is uncertain.

## Chapter 11—Bad Debts

***Advances are not bad debts.*** An owner of an S corporation who advances funds to various companies in which he had equity interests could not claim a bad debt deduction passed through to him. There was no evidence that the advances were loans (no documentation or attempts to collect).

## Chapter 13—Taxes and Interest

***Self-employment tax.*** The Social Security wage base limit, which applies for self-employment taxes, is $127,200 in 2017 (up from $118,500). The tax rate for the Social Security portion of self-employment tax is 12.4% on net earnings up to this dollar limit. The tax rate for the Medicare portion of self-employment tax is 2.9% on all net earnings. The tax deduction is limited to one-half of the self-employment tax.

For those with net earnings over the applicable threshold amount of $200,000 for singles and $250,000 for joint filers (these dollar limits are not adjusted annually for inflation), there is also a Medicare surtax of 0.9% on excess earnings. This applies only to the so-called employee portion, so it is *not* deductible.

***Employment taxes—FICA.*** The wage base limit for the Social Security portion of FICA in 2017 is $127,200. The rate for the employee’s Social Security portion of FICA is 6.2%.

***Employment taxes—FUTA tax.*** The Department of Labor has released its list of 2016 FUTA “credit reduction states.” There is only one state for 2016: California (1.8%).

**Example:** The basic FUTA tax is $42 per employee ($7,000 x [6.0% basic FUTA rate – 5.4% credit for state employment taxes]). Employers in California pay $168 per employee for 2016 ($7,000 x [6.0% - (5.4% -1.8%)]). The FUTA tax is fully deductible.

## Chapter 14—First-Year Expensing, Depreciation, Amortization, and Depletion

***First-year expensing.*** The expensing limit for 2015 is $510,000. The limit phases out when purchases for the year exceed $2,030,000. Thus, no expensing can be used if purchases for the year exceed $2,540,000.

The additional first-year expensing for property in empowerment zones expired at the end of 2016. Whether it will be extended to 2017 is uncertain.

The opportunity to expense small film, television, and theatrical production costs expired at the end of 2016. Whether it will be extended to 2017 is uncertain.

***Business start-up costs and organizational expenses.*** To date there have been no changes in the rules for deducting start-up costs and organizational expenses.

***Modified accelerated cost recovery system—recovery periods.*** The 3-year recovery period for all race horses expired at the end of 2016. Whether it will be extended to 2017 is uncertain.

The 7-year recovery period for motorsports entertainment complexes expired at the end of 2016. Whether it will be extended to 2017 is uncertain.

## Chapter 16—Retirement Plans

***Overview.*** The *Better Way* plan for tax reform, referenced earlier, would continue tax incentives for retirement savings. This may include the introduction of a new type of savings plan. It remains to be seen what will ultimately happen to retirement plans under comprehensive tax reform.

There are a number of IRS publications on various types of retirement plans for small businesses. These are listed in Chapter 24.

***Contribution limits.*** Various limits have been increased for 2017, although some are unchanged from 2016:

* 401(k) plan elective deferrals: $18,000 (plus $6,000 for those who are age 50 and older by December 31, 2017) (unchanged).
* Savings incentive match plan for employees (SIMPLE) elective deferrals: $12,500 (plus $3,000 for those who are age 50 and older by December 31, 2017) (unchanged).
* Defined contribution plans (profit-sharing plans and simplified employee pension plans [SEPs]) is $54,000 (up from $53,000 in 2016).
* Defined benefit (pension) plans: the limit is $215,000 (up from $210,000 in 2016).
* Compensation taken into account in figuring contributions and benefits: the limit is $270,000 (up from $265,000 in 2016).
* IRAs: the contribution limits are unchanged for 2017 at $5,500 (plus $1,000 for those age 50 or older by December 31, 2017) (unchanged). However, the adjusted gross income limits for making deductible contributions for those who are active participants in qualified retirement plans have been increased slightly.

***PBGC premiums.*** For planning purposes, in 2017 the flat-rate premium for each participant is $69. The variable rate premium for underfunded plans is $34 per $1,000 of unfunded benefits per employee, with a cap of $517 per participant.

***State-sponsored plans for the private sector.*** States may impose their own retirement plan requirements on employers lacking retirement plans, and those that had created them were waiting for approval from the federal government. On August 25, 2016, the U.S. Department of Labor issued a final rule (found at <https://www.dol.gov/newsroom/releases/ebsa/ebsa20160825>), which permits the states to go forward with their plans. A couple of these plans go into effect on January 1, 2017 (other *may* go into effect later in 2017):

* California requires employers with 5 or more employees and no qualified retirement plan to offer employees the opportunity to participate in the California Secure Choice Retirement Program. Employees are automatically enrolled with a contribution of 3% of compensation, but they can opt out or choose a smaller contribution.
* Connecticut requires employers with 5 or more employees and no qualified retirement plan to automatically enroll employees over age 19 who have worked for the company for at least 120 days in a state exchange. Employees can contribute up to the Roth IRA limit or opt out. No employer contributions are permitted. Employers with fewer than 5 employees may voluntarily participate in this program.

## Chapter 17—Casualty and Theft Losses

***Disaster losses.*** Find a list of all federal disaster areas for 2016 from FEMA at <https://www.fema.gov/disasters/grid/year/2016>.

## Chapter 18—Home Office Deductions

***Teacher’s use.*** Usually teachers cannot claim a home office deduction for space in their home used to do lesson plans and grade papers because their classrooms are their principal place of business. However, one teacher employed as an adapted physical education teacher with primary responsibilities of implementing physical education programs for students with special needs was allowed a deduction. She used the space in her home to conduct administrative and management activities related to her work and her district did not provide her with space for these tasks. She also used space in her garage to store equipment and the district was aware of this arrangement. Using her home office was for the convenience of her employer.

## Chapter 19—Medical Expenses

***Overview.*** At the time this Supplement was prepared, it was unclear what effect “repeal and replace” of the Affordable Care Act would have on taxes for 2016, 2017, and beyond. Will mandate penalties on individuals and applicable large employers be waived entirely, or waived for 2017? Will new rules be imposed for 2017? It is probably advisable to assume that the material in Chapter 19, including the following updates, should be taken into account for the time being.

***Small employer health care credit.*** Small employers that pay more than half the cost of employees’ medical insurance may be eligible for a tax credit, provided they obtain coverage through the Small Business Health Insurance Option (SHOP) (government exchanges). The credit is reduced if premiums are more than the average premiums for the small group market in your state. The IRS has released the average premiums for small group markets in states for 2016 on a county by county basis. These average premium amounts can be found in the instructions to the 2016 Form 8941.

Note: For tax years beginning after 2013, the credit is allowed only for two consecutive tax years, so if the small employer health care credit is claimed for 2014 and 2015, no credit will be allowed for 2016, even if other requirements for the credit are met.

For 2017, a small employer can take the credit only if average annual payroll is below a set amount. This has been adjusted for inflation so that the full credit applies if the average annual payroll in 2017 is $26,200. No credit can be claimed for 2017 if the average annual payroll is $52,400 or more.

***Health savings accounts.*** The contribution limit for 2017 increased to $3,400 for self-only coverage; the limit for family coverage remains at $6,750. Those who are age 55 or older by the end of 2017 can add another $1,000 for the year (this additional contribution limit is unchanged).

To contribute to a health savings account, the person must be covered by a high-deductible health plan. For 2017, this means that the plan has a minimum deductible of $1,300 for self-only coverage and $2,600 for family coverage. The cap on annual out-of-pocket expenses (deductibles, co-payments, and other amounts) cannot exceed $6,550 for self-only coverage and $13,100 for family coverage. These amounts are unchanged.

Note: Before 2017, the bronze plan on the government Marketplace generally amounted to a high-deductible health plan, which is the prerequisite for having a health savings account (HSA). In 2017, the bronze plans on the federal Marketplace are not HDHPs. Some of the state Marketplaces still have the requisite HDHP plans.

Correction: Under eligibility, contributions to HSAs cannot be made once an individual enrolls in Medicare (not merely turns age 65 and becomes eligible for it). This may matter where an employer has 20 or more employees, offers an HDHP, and an employee turning age 65 does not apply for Medicare Part B because the HDHP is the primary payer. An employer could continue HSA contributions on behalf of this employee until she drops the HDHP and enrolls in Medicare.

***Archer medical savings accounts.*** The annual deductible in 2017 for a self-only plan must be not less than $2,250 and not more than $3,350; the out-of-pocket annual expense limit is $4,500. The annual deductible for family coverage must be not less than $4,500 and not more than $6,750; the out-of-pocket annual expense limit is $8,250.

***Health reimbursement arrangements.*** In 2015, the IRS warned that reimbursing an employee for the cost of his/her personal health coverage was a health plan that did not comply with Affordable Care Act requirements and that employers could be penalized $100 per day per employee. However, the IRS granted temporary relief through June 30, 2015. Now, the 21st Century Cures Act extends this relief through the end of 2016. This new law also creates qualified small employer health reimbursement arrangements (QSEHRAs) explained next.

***Qualified small employer health reimbursement arrangements (QSEHRAs).*** Starting in 2017, small businesses can use qualified small employer health reimbursement arrangements (QSEHRAs) to reimburse employees for the cost of the premiums for their individually-obtained health coverage. For purposes of QSEHRAs, small businesses are those with fewer than 50 full-time and full-time equivalent employees. Following these rules ensures that reimbursements can be made penalty free:

* Reimbursements cannot exceed $4,950 for individual coverage or $10,000 for family coverage. The dollar amount will be adjusted for inflation. If an employee is not covered for a full year, the dollar amount applicable to the employee must be prorated.
* Your employees receiving a reimbursement must provide proof of coverage that meets the minimum essential coverage standard.
* You must offer reimbursements to all employees if you reimburse any employee (i.e., you can’t discriminate in making reimbursements). However, you do not have to reimburse any employee who has not yet worked for you for at least 90 days, is under the age of 25, or is covered by a collective bargaining agreement. Also, you do not have to reimburse any employee who works part time or is seasonal.
* In general, the reimbursement must be the same for all employees. However, this requirement is not violated because the cost of employees’ coverage varies with age or family size.
* You must give notice about reimbursements no later than 90 days before the start of the year (with a transition rule for 2017). You should tell employees that receiving a reimbursement bars them from claiming the premium tax credit.

***Flexible spending arrangements.*** The maximum amount that employees can add to a medical FSA in 2017 is $2,660 (up $50 over the 2016 limit).

***Reporting health coverage on W-2s.*** As yet, the IRS has not changed the reporting requirements, so employers issued fewer than 250 in the previous year do not have to report health coverage.

***Reporting health coverage on 1095s.*** Employers with 50 to 99 employees exempt from penalty in 2015 for not providing minimum essential coverage to employees and dependents are still subject to reporting requirements. These employers must file Form 1095-C and transmit copies, along with Form 1094-C, to the IRS. Smaller employers that have self-insured plans (e.g., health reimbursement accounts) must file Form 1095-B and 1094-B transmittal.

The deadlines for filing these forms mirror the deadlines for W-2s, so that 2016 forms to employees were due on January 31, 2017. However, the IRS extended the due date for 30 days, to March 2, 2017. However, the due date for transmittals to the IRS has not been changed. Paper returns are due on February 28, 2017; those filed electronically are due on March 31, 2017.

## Chapter 20—Deductions for Farmers

***Depreciation.*** The law setting the recovery period for all race horses at 3 years, in 2016 expired at the end of 2016. Whether it will be extended to 2017 is uncertain.

## Chapter 22—Miscellaneous Business Deductions

***Moving expenses.*** For 2017, the standard mileage rate for driving a personal vehicle for moving purposes is 17 cents per mile.

***Personal education incentives for 2017:***

* ***American opportunity credit.*** The basic credit amount and modified adjusted gross income limit on eligibility are unchanged.
* ***Lifetime learning credit*.** The modified adjusted gross income limit on eligibility for the credit increases to $56,000 to $66,000 ($116,000 to $132,000 on a joint return).
* ***Above-the-line deduction for tuition and fees*.** This break expired at the end of 2016. Whether it will be extended to 2017 is uncertain.
* ***Student loan interest*.** The modified adjusted gross income rate over which the deduction limit of up to $2,500 of interest is phased out is $135,000 to $165,000 on a joint return (up $5,000); for singles it remains at $65,000 to $80,000.

***Charitable contributions.*** The IRS has updated its Audit Technique Guide for Conservation Easements (<https://www.irs.gov/businesses/small-businesses-self-employed/conservation-easement-audit-techniques-guide>).

The IRS has placed syndicated conservation easements on the roster of listed transactions. This requires special disclosure on tax returns.

***Legal and professional fees.*** If you win a dispute with the IRS in which the government was not substantially justified, you may be able to recover costs up to a set dollar amount. For 2017, the dollar amount is $200 per hour (unchanged from 2016).

***Meal costs for day care providers.*** For 2017, the rates for standard meals and snack rates have, for the first time, been decreased slightly:

Breakfast:

* States other than Alaska and Hawaii: $1.31
* Alaska: $2.09
* Hawaii: $1.53

Lunch and dinner:

* States other than Alaska and Hawaii: $2.46
* Alaska: $3.99
* Hawaii: $2.88

Snacks:

* States other than Alaska and Hawaii: $0.73
* Alaska: $1.19
* Hawaii: $0.86

## Chapter 23—Roundup of Tax Credits

Some credits expired at the end of 2016. Whether they will be extended to 2017 is uncertain. These credits include all of the following:

***Employment-related credits:***

* *Empowerment zone employment credit.*
* *Indian employment credit.*

***Capital construction-related credits:***

* *Energy-efficient home credit.*

***Other tax credits:***

* *Alternative fuel vehicle refueling property credit.*

## Chapter 24—Income and Deduction Strategies

***List of IRS publication.*** Table 24.2 should be updated to reflect the addition of the following IRS Publications:

* 4285: SEP Checklist
* 4334: SIMPLE-IRA Plans for Small Businesses
* 4587: Payroll Deduction IRAs for Small Businesses
* 4674: Automatic Enrollment 401(k) Plans for Small Businesses
* 4808: Profit-Sharing Plans for Small Business
* 4854: Employee Tax Compliance Message

## Chapter 25—Strategies for Opening or Closing a Business

***Debt versus equity financing.*** In informal guidance, the IRS clarified the tax treatment of crowdfunding. Crowdfunding that constitute loans, contributions to capital (“equity crowdfunding”), or gifts (without any quid pro quo) are not taxable to the business. However, amounts received through a crowdfunding portal for services rendered or gains from the sale of property are taxable.

*Equity crowdfunding.* Table 25.1 is updated to reflect the addition of the following states:

* Alaska
* Delaware
* Minnesota
* New Jersey
* West Virginia

Intrastate equity crowdfunding will be effective Wyoming as of July 1, 2017.

## Chapter 28—Alternative Minimum Tax

***Exemption amounts.*** The AMT exemption amounts for 2017 are:

|  |  |
| --- | --- |
| **Filing status** | **2017 exemption** |
| Married filing jointly/surviving spouse  | $84,500 |
| Single/head of household | $54,300 |
| Married filing separately | $42,250 |

*Exemption phase-out.* The exemption amounts for 2017 start to phase out when alternative minimum taxable income (AMTI) exceeds $120,700 for singles and heads of households, $160,900 for married filing jointly and surviving spouses, and $80,450 for married filing separately.

*Start of 28% rate.* The 26% AMT rate for 2017 applies to alternative minimum taxable income up to $187,800 ($93,900 for married persons filing separately); the 28% rate applies to excess taxable income over these amounts.

***Chapter 29—Other Taxes***

***Social Security and Medicare taxes.*** The 2017 wage base limit for the Social Security tax portion of FICA and self-employment tax is $127,200 (up from $118,500 in 2017). Note that the 0.9% Medicare surtax applies only to employees (and the so-called employee portion of self-employment tax).

***Limited liability company members.*** While the issue of whether net earnings of LLC members are subject in whole or in part to self-employment tax remains on the IRS’s Priority Guidance Plan for 2016-2017 at <https://www.irs.gov/pub/irs-utl/2016-2017_pgp_initial.pdf>. As yet, no guidance has been issued.

***Sales taxes.*** There had been efforts in Congress to require out-of-state merchants to collect sales taxes (with a small business exemption). This measure failed to pass in 2016.

***Chapter 32—Working with CPAs and Other Tax Professionals***

***AICPA challenge to the IRS’s Annual Filing Season Program.*** In August 2016, a district court ruled that the AICPA could not pursue its challenge to the IRS’s Annual Filing Season Program. In the decision, the judge said “On the surface it seems difficult to square the AIPCA’s interest in dismantling the IRS’s program with Congress’s goal of safeguarding consumers.” Participants in this program are listed in the IRS Directory of Tax Return Preparers. The AICPA has appealed the decision to the appellate court.

***Professional Employer Organizations (PEOs).*** They can receive IRS certification to become certified employer organizations (CPEOs) and be listed in an IRS directory upon completing a certification process. As yet, there is no directory posted on the IRS website.

***Appendix B—Tax Penalties***

***Failure to file a tax return or pay tax.*** The penalty for tax years beginning in 2017 is $210 (up $5 over the amount in 2016) or 100% of the amount required to be shown on the return.

***Failure of a partnership to file a return.*** For tax years beginning in 2017, the penalty is $200 (up from $195 in the prior year). The penalty is per month (or part-month) that the return is late, up to a maximum of 12 months, and is multiplied by the number of partners during any part of the year.

***Failure of an S corporation to file a return.*** For tax years beginning in 2017, the penalty is $200 (up from $195 in the prior year). The penalty is per month (or part-month) that the return is late, up to a maximum of 12 months, and is multiplied by the number of shareholders during any part of the year.

***Administrative waivers.*** To date there have been no developments on an SB/SE Division program for self-correcting errors.

***Appendix D—Dollar Limits and Amounts Adjusted for Inflation***

**Items Adjusted Annually for Inflation.** The following adjustments apply for 2017 (and do not factor into the preparation of 2016 returns):

***Adoption assistance--***excludable employer-provided adoption assistance

for employees ($13,570 for 2017).

***First-year expensing (Sec. 179 deduction)--*** the dollar limit on the deduction, as well as the phase-out on property placed in service. For 2017, the limits are $510,000 and $2,030,000, respectively.

***Medical flexible spending accounts (FSAs)—***the most that employees can add annually on a pretax basis is capped at $2,600 for 2017.

***Shared responsibility payment—***there is no penalty if the cost of employer health coverage is deemed to be unaffordable, which in 2017, is 8.16% of household income.

***Small employer health insurance credit—***the amount of average compensation, originally fixed at $25,000, is $26,200 for 2017.

***Social Security wage base***—the amount that is used to figure the Social Security portion of FICA and self-employment tax ($127,200 for 2017).

***Transportation fringe benefits***—the amount excludable for free parking, and the aggregate amount excludable for transit passes or van pooling, remains at $255

per month in 2017.

**Items Set by the IRS.** The following adjustments apply for 2017 (and do not factor into the preparation of 2016 returns):

***Deemed depreciation for business vehicles***—if the deduction for expenses for business use of a personal vehicle owned by the taxpayer is figured using the IRS’s standard mileage allowance, then the basis of the vehicle is reduced by a set amount per mile (e.g., 25¢ per mile in 2017).

***Mileage allowance***—the rate per mile used to determine the deduction for business use of a personal vehicle instead of deducting the actual costs is 53.5¢ per mile in 2017.