

Miles CPA Review: REG

Q3 2017 Updates & Errata for 2017 Edition

Summary of updates:

- **“New version” CPA exam structure (w.e.f. April 2017)**
- **REG-1, 2, 3, 4, 5** [2017 vs. 2016, Other Updates/Errata]
- **REG-6** [Regulation D changes, Other Updates/Errata]

Note:

- Most of the changes in REG every year is for the inflation-indexed \$ which are not tested on the exams (and there's no need to memorize).
- Key updates which you would want to keep in mind for your exams are **highlighted in yellow**

“New version” CPA exam structure (w.e.f. April 2017):

MCQ testlets

50% weightage

Recommended time:

- Testlet #1: 50 mins
- Testlet #2: 50 mins

TBS/WCT testlets

50% weightage

Recommended time:

- Testlet #3: 30 mins
- Testlet #4: 50 mins
- Testlet #5: 60 mins

	MCQ testlets		TBS/WCT testlets			
FAR	Testlet #1 33 MCQs	Testlet #2 33 MCQs	Testlet #3 2 TBSs	Break: 15 min	Testlet #4 3 TBSs	Testlet #5 3 TBSs
AUD	Testlet #1 36 MCQs	Testlet #2 36 MCQs	Testlet #3 2 TBSs	Break: 15 min	Testlet #4 3 TBSs	Testlet #5 3 TBSs
REG	Testlet #1 38 MCQs	Testlet #2 38 MCQs	Testlet #3 2 TBSs	Break: 15 min	Testlet #4 3 TBSs	Testlet #5 3 TBSs
BEC	Testlet #1 31 MCQs	Testlet #2 31 MCQs	Testlet #3 2 TBSs	Break: 15 min	Testlet #4 2 TBSs	Testlet #5 3 WCTs

Old version vs. New version:

	CPA exams (2011 – March 2017)	CPA exams w.e.f. April 2017
Skill-level tested	<ul style="list-style-type: none"> • Remembering & Understanding • Application 	<ul style="list-style-type: none"> • Remembering & Understanding • Application • Analysis • Evaluation (for AUD only)
Exam structure & scoring weights	FAR: 90 MCQs (60%), 7 TBSs (40%) AUD: 90 MCQs (60%), 7 TBSs (40%) REG: 72 MCQs (60%), 6 TBSs (40%) BEC: 72 MCQs (85%), 3 WCTs (15%)	FAR: 66 MCQs (50%), 8 TBSs (50%) AUD: 72 MCQs (50%), 8 TBSs (50%) REG: 76 MCQs (50%), 8 TBSs (50%) BEC: 62 MCQs (50%), 4 TBSs (35%), 3 WCTs (15%)
# of Testlets	4 testlets: 3 MCQ testlets + 1 TBS/WCT testlet	5 testlets: 2 MCQ testlets + 3 TBS/WCT testlets
Time Allotment	FAR: 4 hours AUD: 4 hours REG: 3 hours BEC: 3 hours	FAR: 4 hours AUD: 4 hours REG: 4 hours BEC: 4 hours
Break	Optional breaks (count against time)	15-min Standard break (after Testlet #3) + Optional breaks (count against time)

* MCQ - Multiple Choice Question | TBS - Task Based Simulation | WCT - Written Communication Task

REG-1 [2017 vs. 2016]

REG 1.1 – Individual Income Tax Return = Form 1040

- **Standard Deduction** - \$6,350/\$12,700 for 2017 [vs. \$6,300/\$12,600 for 2016]
- **Exemption** - \$4,050 for 2016-17

REG 1.2 – Gross Income

- **Capital Gain & Qualified Dividend Tax Rates** remains unchanged - At 20% for taxpayers whose income exceeds the threshold for the 39.6% ordinary income tax bracket (15% tax rate applicable on income below the threshold; and, 0% tax rate applies for taxpayers in the 10% & 15% tax brackets)
- **Qualified Transportation fringe benefit** remains unchanged in 2017
- **Qualified Adoption expenses** paid by employer - \$13,570 for 2017 (vs. \$13,460 for 2016)
- **Foreign Earned Income Exclusion** - \$102,100 in 2017 (vs. \$101,300 in 2016)

REG 1.3 – Adjustments

- **HSA** - upto \$3,400/\$6,750 for single/family for 2017 [vs. \$3,350/\$6,750 for 2016]
- **FICA-Social Security** - @6.2% for employer plus 6.2% for employee [on max. \$127,200 in 2017 vs. \$118,500 for 2016]
- **Keogh Plan** – upto \$54,000 in 2017 [vs. \$53,000 in 2016]
- **IRA Contribution Limits** remain unchanged - \$5,550 for single (\$11,000 for MFJ); additional \$1,000 “catch-up contribution” allowed if 50+ age

REG 1.4 – Deductions from AGI

- **Standard Deduction**

Filing Status	2017	2016
Single/Married Filing Separately	\$6,350	\$6,300
Married Filing Jointly/QW	\$12,700	\$12,600
Head of Household	\$9,350	\$9,300

- ✓ **Additional Standard Deduction** for Elderly (>65) and/or blind remains unchanged for 2017
- ✓ **Standard Deduction for Dependents** - remains unchanged for 2017, except that the limit has increased from \$6,300 (in 2016) to \$6,350 (in 2017) due to increase in regular Standard Deduction
- **Itemized Deductions (Schedule A)**
 - ✓ **Medical & Dental Expenses**
 - ⇒ From 2017, medical expense deduction is upto 10% of AGI for all taxpayers [note that the rate was 7.5% if age is 65 or above until 2016]
 - ⇒ Travel cost for medical care (actuals OR \$0.17/mile for 2017 vs. \$0.19/mile for 2016)
 - ✓ **Itemized Deductions Phase Out** - \$ have been indexed to inflation in 2017

REG 1.5 – Exemptions

- **Exemption** - \$4,050 for 2016-17
- **Exemptions Phase Out** - \$ have been indexed to inflation in 2017

REG 1.6 – Calculating Taxes

- **Federal Income Tax Brackets for 2017** - \$ have been indexed to inflation in 2017 [for reference purposes – do not memorize!]

Tax Rate	Single	Married Filing Jointly / Qualified Widow(er)	Head of Household	Married Filing Separately
10%	\$0 - \$9,325	\$0 - \$18,650	\$0 - \$13,350	\$0 - \$9,325
15%	\$9,326 - \$37,950	\$18,651 - \$75,900	\$13,351 - \$50,800	\$9,326 - \$37,950
25%	\$37,951 - \$91,900	\$75,901 - \$153,100	\$50,801 - \$131,200	\$37,951 - \$76,550
28%	\$91,901 - \$191,650	\$153,101 - \$233,350	\$131,201 - \$212,500	\$76,551 - \$116,675
33%	\$191,651 - \$416,700	\$233,351 - \$416,700	\$212,501 - \$416,700	\$116,676 - \$208,350
35%	\$416,701 - \$418,400	\$416,701 - \$470,700	\$416,701 - \$444,550	\$208,351 - \$235,350
39.6%	Over \$418,401	Over \$470,701	Over \$444,551	Over \$235,351

- **Kiddie Tax** remains unchanged for 2017

REG 1.7 – Tax Credits

- **Adoption Credit** - Limited to \$13,570 per child for 2017 [vs. \$13,460 for 2016]
- **Earned Income Credit: Thresholds for 2017 below (only for understanding - do not memorize!)**

	Phase-in from \$1 upto	Credit as a % of Earned Income	Maximum credit	Phase-out
3 or more qualifying children	\$14,040	45%	\$6,318	\$18,340 - \$48,340 (\$23,930 - \$53,930 for MFJ)
2 qualifying children	\$14,040	40%	\$5,616	\$18,340 - \$45,007 (\$23,930 - \$50,597 for MFJ)
1 qualifying child	\$10,000	34%	\$3,400	\$18,340 - \$39,617 (\$23,930 - \$45,207 for MFJ)
No qualifying child	\$6,670	7.65%	\$510	\$8,340 - \$15,010 (\$13,930 - \$20,600 for MFJ)

- **Retirement Savings Contribution Credit (Saver's Credit): Thresholds for 2017 below (only for understanding - do not memorize!)**

MFJ	Single	Credit Rate	Maximum eligible contribution (per taxpayer)	Maximum credit (per taxpayer)
\$ 0 - \$37,000	\$0 - \$18,500	50%	\$2,000	\$1,000
\$37,001 - \$40,000	\$18,501 - \$20,000	20%	\$2,000	\$400
\$40,001 - \$62,000	\$20,001 - \$31,000	10%	\$2,000	\$200
Over \$62,000	Over \$31,000	0%	n/a	n/a

REG 1.8 – Alternative Minimum Tax

- **Few itemized deductions are added-back** (increases AMTI):
 - ✓ From 2017, “Miles Takes Interest in Jolly” is now “Take Interest in Jolly”
 - ⇒ Reason is that From 2017, medical expense deduction is upto 10% of AGI for all taxpayers [note that the rate was 7.5% if age is 65 or above until 2016]
- **AMT Exemption and phase-out for 2017**
 - ✓ For MFJ taxpayers - 2017: \$84,500 - 25% x (AMTI before exemption - \$160,900)
 - ⇒ 2016: \$83,800 - 25% x (AMTI before exemption - \$159,700)
 - ✓ For Single taxpayers - 2017: \$54,300 - 25% x (AMTI before exemption - \$120,700)
 - ⇒ 2016: \$53,900 - 25% x (AMTI before exemption - \$119,700)

- **AMT Tax rate for 2017**

Filing Status	26%	28%
MFJ/Single/HH	\$0 - \$187,800	plus 28% on the excess >\$187,800
MFS	\$0 - \$93,900	plus 28% on the excess >\$93,900

REG-2

- [Pg R2-18] **Section 179 expense** (optional election, not mandatory): Expense the cost of depreciable personal property (and off-the-shelf software) upto \$510,000 [\$500,000 for 2012-2016]
 - Reduced \$ by \$ for amount placed during the year exceeding \$2,030,000 for 2017. Hence, Section 179 does not apply if purchases > \$2,540,000
- [Pg R2-18] **Bonus depreciation (additional first-year depreciation)**: Remains unchanged at 50% for 2017. However, the percentage of deduction will reduce to 40% in 2018 and 30% in 2019; and would not apply after 2019
 - Under the PATH Act, qualified improvement property (QIP) qualifies for bonus depreciation. QIP includes improvement (excluding enlargements, structural framework and elevators/escalators) to the interior portion of a non-residential building, if the improvement is placed in service after the date the building was first placed in service
- [Pg CQE-13] Answer Explanation to REG-2 Q.23
Correct answer option is (c)

REG-3

- [Pg R3-14] **II D) Cash basis for filing**
Spelling mistake on 2nd sub-bullet: “cash” misspelt as case
- [Pg R3-32] **Corporate Income Tax rates** remain unchanged for 2017 [same slab since 2005]

REG-4

- [REG-4.3 (IV)] **Gift Tax Exclusion** remains unchanged at \$14,000/person
- [REG-4.3 (III) & (IV)] **Unified credits exclusion** is \$5.49 MM for 2017 (vs. \$5.45 MM for 2016)
- [R4-43] **Estates & Trusts: Tax Rates for 2017** [for reference purposes – do not memorize!]
[Note that the top rate of 39.6% is reached very quickly @\$12,500 taxable income]

Taxable Amount over	Taxable Amount not over	Tax on Amount in Column A	Rate of tax on excess over amount in Column A
\$0	\$2,550	\$0	15%
\$2,550	\$6,000	\$382.50	25%
\$6,000	\$9,150	\$1,245.00	28%
\$9,150	\$12,500	\$2,127.00	33%
\$12,500		\$3,232.50	39.6%

- On May 4, 2017, President Trump signed an executive order promoting free speech and religious liberty
 - Directs the IRS not to enforce a provision in IRC sec. 501(c)(3) that bars tax-exempt organizations from engaging in certain types of political activity

REG-5

- [REG-5.4-II G - Penalties imposed on Taxpayers; Pg R5-31]
 - **Individuals Failure-to-file penalty (or Late filing penalty)** – General rule is 5% of unpaid tax due per month (Maximum limit = 25% of unpaid tax)
 - ✓ **Minimum late filing penalty** - If return is filed more than 60 days after due date or extended due date, the minimum penalty for late filing is the lesser of \$210 or 100% of unpaid tax [for 2017]
 - **Partnerships Failure-to-File penalty:** From 2017, \$200 /partner/month (up to 12 months).
 - **S-Corporation Failure-to-File penalty:** From 2017, \$200/shareholder/month (up to 12 months).

REG-6

➤ [REG 6.2-I B - 1933 Act Exemptions – Regulation D; Pg R6-9 & R6-10]

- Regulation D, Rules 504 and 505
 - ✓ Rule 504 amended to increase aggregate amount of securities offered and sold in any 12-month period from \$1 MM to \$5 MM
 - ✓ Rule 505 removed as of May 22, 2017
- Rule 506 - Cannot resell for 1 year (not 2 years)
- Changes highlighted on table below:

	Rule 504	Rule 505	Rule 506
\$ Limitation	≤ \$5 MM	≤ \$5 MM	Unlimited \$ amount
Time for Issuance	Within 12 month period	Within 12 month period	Unlimited amount of time for issuance
# of Non-accredited investors	No limit	Upto 35	Upto 35 (but must be sophisticated or be represented by accredited); None allowed if 'general solicitation'
# of Accredited investors	No limit	No limit	No limit
Notice required to SEC?	15 days	15 days	15 days
Is advertising allowed?	Sometimes (allowed if sales are only to accredited investors and other conditions are met)	No	Sometimes (allowed if sales are only to accredited investors)
Financial Information Required	N/A	Non-accredited = Audited B/S Accredited = N/A	Non-accredited = Audited B/S Accredited = N/A
Resale	Resale to non-accredited investors is permitted if certain conditions are met	Cannot resell for 2 years	Cannot resell for 1 year (or 6 months if the issuer is a reporting company under the 1934 Act)
Allowed if the company is required to report under 1934 Act?	No	Yes	Yes

➤ [REG 6.2-II A - 1934 Act Registration Requirements; Pg R6-12]

- Form S-1 applies if either:
 - ✓ Listed or Traded on a national exchange OR
 - ✓ At least Exceeds \$10 million in assets AND 2,000 or more shareholders (or 500 or more non-accredited investors)

➤ **[REG 6.2-VI - Tax Return Preparation]**

- District Court Cases
 - ✓ Adam Steele, et. al. v. United States of America
 - ⇒ A district court held that the IRS is authorized to require tax return preparers to obtain preparer tax identification numbers (PTINs), but is not authorized to charge preparers fees to obtain and maintain their PTINs
 - ✓ James C. Sexton, Jr. and Esquire Group, LLC v. Karen L. Hawkins, Director of Office of Professional Responsibility, IRS
 - ⇒ A district court held that an individual suspended from practice before the IRS could still engage in the preparation of tax returns or offering of tax advice since these activities are not considered “practice before the IRS”
- [Pg R6-35]
 - ✓ Endorsing or negotiating taxpayer’s refund check – penalty is \$510/check for 2017
 - ✓ Failure to be diligent in determining eligibility for child tax credit, American opportunity tax credit, and earned income credit – penalty is \$510/return for 2017
 - ✓ All penalty amounts @\$25,000 per year should be \$25,500 per year for 2017