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# 2017 YEAR-END TAX PLANNING TIPS

## Year-end Planning for Income Taxes is Critical!
## Tax Reform is in the Works

2017 is coming to a close; however, you still have time to avoid big surprises at tax-time next year. We suggest that you start year-end planning now by finding time to read through this newsletter as soon as you can. It's filled with tax-saving ideas, many of which won't work if you wait too long.

**Tax Reform** Tax legislation is being discussed in Congress. They are contemplating the most extensive re-write of the Internal Revenue Code since 1986. Time will tell if this legislation will pass in 2017.

**The IRS Has Been Quite Active on the Regulatory Front.** During 2017, the IRS issued a number of major regulations, rulings and other guidance that impact your tax picture. We stay abreast of these rules in order to assist you with tax planning and tax preparation.

**April 17, 2018 will be the 2017 Tax Deadline for Most Individual Taxpayers and C corporations.** April 15, 2018 will be on a Sunday, however the Emancipation Day holiday in the District of Columbia will be observed on that day Monday April 16, thus the IRS announced that most taxpayers will have until the next business day to file their tax returns, thus Tuesday, April 17, 2018.

**March 15, 2018 will be the deadline for calendar year S corporations and partnership returns**.

**Homeowners - Important Reminder**

Taxpayers can exclude up to $250,000 ($500,000 if married filing jointly) of realized gain from the sale of a principal residence. Gone are the days when you had to reinvest in a new home that costing as much or as the home you sold, to avoid tax. Though this rule changed in 1997 many are not aware of this opportunity. In order to qualify for this exemption, you must have owned and resided in the home as your principal residence for 2 of the preceding 5 years. Special rules provide for a partial exclusion if a taxpayer relocates due to unforeseen circumstances prior to satisfying the 2-year requirement.

## Important Items for 2017

- **Standard Mileage Rates for 2017**: The optional standard mileage allowance for owned or leased autos (including vans, pickups or panel trucks) for business travel taking place in **2017** is **53.5¢** per mile. The **2018** standard mileage rates are expected to be announced by the IRS in early December.
- **Reporting Changes in Circumstances:** If you purchased health insurance coverage through the Health Insurance Marketplace, you may be receiving advance payments of the premium tax credit in 2017. It is important that you report *changes in circumstances* to your Marketplace so you get the proper type and amount of premium assistance. Some of the changes that you should report include changes in your income, employment, or family size. Advance credit payments help you pay for the insurance you buy through the Marketplace. Reporting changes will help you avoid getting too much or too little premium assistance in advance.
- **Individuals and Dependents Must Have Health Insurance:** The Affordable Care Act mandates individuals and their dependents to have health insurance that includes minimum essential

coverage or pay a penalty. Some taxpayers will qualify for an exception from this "individual mandate"; others already have qualifying coverage obtained through the individual market, through a government-sponsored exchange or through an employer-provided plan; still others have coverage through a government program such as Medicare or Medicaid. For lower-income individuals who obtain health insurance at the Healthcare Marketplace, a premium tax credit and cost-sharing reductions may be available to help offset the costs.

☐ **Plan to participate in your employers flexible spending account or HSA** Between now and 2018 business will offer enrollment in flexible spending accounts and health savings accounts. These plans allow you to pay for out of pocket medical expenses on a pre-tax basis.

- **Employer sponsored retirement accounts:** Annually review your ability to participate in your employer's retirement plan. Starting to save early for retirement can insure your ability to successfully retire. Not taking advantage of employer matches can be costly. Consider electing periodic automated increases in your contributions. Many plans offer this feature. Save early and often.

At least annually review your asset allocation inside your accounts to make certain your investments are consistent with your rick tolerance and timeline to retirement.

## 2017 Year-End Tax Tips

Not all these tips based on current tax rules will apply in your particular situation but you or a family member are likely to benefit from many of them. The sooner you call us for an appointment, the more time we will have to meet, find specific actions that will benefit you and your family and get you started on your year-end tax saving moves.

## What to do if you receive a suspicious IRS-related correspondence?

If you receive an email claiming to be from the IRS that contains a request for personal information, taxes associated with a large investment, inheritance or lottery. Don't reply. Don't open any attachments. They can contain malicious code that may infect your computer or mobile phone. Don't click on any links. Forward the email as-is to IRS at phishing@irs.gov. Don't forward scanned images because this removes valuable information. Immediately delete the original email.

Contact our office immediately before initiating any contact with the IRS, or someone claiming to be an IRS employee whether you receive a phone call, letter, email, text or fax.

## Year-End Tax Planning Moves for Businesses & Business Owners

Here are a few key tax-saving moves your business might make:

☐ **The Section 179 limit for 2017 is $510,000** for purchases of qualifying assets. Bonus depreciation at the 50% level for qualifying original use (new) assets. Let's discuss utilizing these strategies. Planning is important.

☐ **New IRS Rules about When to Capitalize and When to Repair:** In recent years, the IRS finalized regulations that determine when taxpayers should capitalize or deduct as a current expense repairs on tangible property. These rules present the opportunity to write-off rather than capitalize significant expenditures. Call us to discuss if you are planning significant expenditures.

☐ **Consider Selling Rather Than Trading Your Business Automobile:** Before trading in your business automobile when purchasing a new vehicle, call our office to discuss whether an outright sale might be more advantageous. Because of depreciation restrictions on automobiles, a sale might result in a deductible tax loss. Call to discuss whether a trade or sale would be most advantageous.

☐ **Succession Planning:** If you plan to exit or transition your business to new ownership, it will pay to do some tax planning well in advance. Not only can tax planning be financially rewarding, but a well thought out tax plan can give you peace of mind.

We can help you create a comprehensive, integrated strategy that addresses business financial planning, personal financial planning, management succession, an estate plan and a plan for ownership transition.

Using life insurance policies to fund cross-purchase agreements by others inside your organization may prove be a great strategy. Advance planning can help you sell your business for a larger sales price and keep more of the proceeds after tax.

☐ **S Corporation Election:** Consider incorporating and electing S Corporation status or, if your business is already incorporated, consider switching from C to S corporation status. Doing so will avoid double taxation. Once your business converts from C to S status, a 5-year period must pass before a future sale or liquidation can completely escape double taxation. Call to discuss whether converting to S corporation makes sense

## Year-End Tax Planning Moves for Individuals

**Here are a few key tax-saving moves that might save you some money:**

☐ **Estimated Income Tax:** If you receive income that's not subject to withholding, you may need to pay estimated tax. This may include income such as self-employment, interest, or rent. If you expect to owe a thousand dollars or more in tax, and meet other conditions, you may need to pay this tax. You would normally pay the tax four times a year. Check with us and we can help you figure out how much estimated tax you may need to pay. The final estimated tax payment for 2017 is due on January 15, 2018.

☐ **Convert to a Roth IRA:** If you want to remain in the market for the long term, a Roth IRA might be better for you than a traditional IRA. Providing that you are eligible to do so, consider converting your traditional IRA money invested in stocks (or mutual funds) into a Roth IRA. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2017.

☐ **Defer Income to 2018:** Postponing income is also desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances or tax rate changes.

☐ **Charitable Contributions:** When making contributions of cash, check, or other monetary gift, regardless of amount, you must maintain a bank record or a written communication from the charity. If the contribution is $250 or more you must maintain a contemporaneous written receipt from the charitable organization.

Consider gifting an un-needed life insurance policy to your favorite charity.

☐ **Balance Stock Gains and Losses:** If you have taken losses on stock sales in 2017 and you have investments that have appreciated in value, you should consider selling if you believe the values have peaked, and thereby offset gains with your pre-existing losses. It might be advisable for us to meet to discuss year-end trades you should consider making.

☐ **Accelerate deductions into 2017 to lower your 2017 tax bill:** This strategy might enable you to claim larger deductions, credits, and other tax breaks for 2017 that otherwise are phased out over varying levels of adjusted gross income (AGI). These include child tax credits, higher education tax credits, and deductions for student loan interest. Consider using a credit card to pay deductible expenses to increase your 2017 deductions even if you don't pay the credit card bill until after year end.

☐ **Pay First Quarter Education Expenses Early:** Unless Congress extends, the up-to-$4,000 above-the-line deduction for qualified higher education expenses will not be available for 2017. If extended, consider prepaying 2018's first quarter eligible expenses.

The Lifetime Learning Credit and American Opportunity Credit are available for 2017. Higher income taxpayers who lose the ability to claim their children's exemption can choose not to claim their children as exemptions, thus allowing the children to take advantage of the education deduction if available or the education credits. Let's discuss.

- ☐ **Sell Passive Activities with Suspended Losses:** If you own an interest in a passive activity with suspended passive losses, sale of the activity before year end will produce deductible losses that will reduce your taxable income. Call us to discuss this complicated strategy.

- ☐ **Don't Forget Your Required Minimum Distributions:** Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retired plan) if you have reached age 70 ½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn.

- ☐ **Charitable IRA Rollovers** Individuals 70 ½ and older can make charitable IRA rollovers up to $100,000 per year. These distributions satisfy your required minimum distribution requirement. These distributions do not result in taxable income, nor do they result in tax deductions. For taxpayers who don't normally itemize deductions they create a tax benefit, as you effectively get a deduction for the entire contribution, resulting in a significant tax savings. Let us do the math on this tax strategy.

- ☐ **Make Annual Gifts to Individuals:** Consider making gifts to family and other heirs. The annual gift tax exclusion for 2017 is $14,000. The exclusion amount rises to $15,000 in 2018. You can make gifts of this size or less to an unlimited number of individuals. Consider strategies like helping children and grandchildren fund ROTH IRA's as a way to transfer wealth. In addition, paying qualified higher education expenses (tuition) directly for someone is not subject to the annual gift exclusion limits.

- ☐ **Update Your Will or Trust:** If you haven't updated your estate planning in recent years now is the time. Consider the unique needs of heirs, including special needs trusts. Consider making discounted lifetime gifts to reduce the value of your estate, if you anticipate your estate will be subject to estate tax.

  Gifts to heirs using family limited partnerships can facilitate the use of discounts. Taxpayers with significant estates should also consider gifting the ownership of life insurance policies to avoid paying estate tax on the value of a life insurance policy. Consider remembering your favorite charities in your estate plans.

  Please consider including us in your discussions with your attorney. If you need referrals for an attorney please contact us.

## NOW IS THE TIME TO PLAN FOR YOUR 2017 TAXES!

Situations occur almost every day that can impact your income taxes. Waiting until 2018 is likely to mean missing tax planning opportunities that are only available until the end of 2017.

In 2017 did you have a significant income change? Change your name or address? Marry, divorce, or live apart from your spouse? Have or adopt a child? Did your dependents graduate from college? Start or sell a business? Purchase or sell business equipment or rental property? Create a living trust? Receive any correspondence from the IRS? We need to know!

**Call today for a tax planning appointment.** The sooner we meet, the more time we will have for tax saving action.

# Thank You!

**Your business is appreciated.**
**Call us to discuss tax planning.**
**We thank you for your referrals!**

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