Tax Preparation for calendar year 2017

It is always a good time to think of planning moves that will help lower your tax bill for this year and possibly the next. Factors that compound the planning challenge include turbulence in the stock market, overall economic uncertainty, and Congress's passage of new tax laws for individuals and businesses.

We have compiled a checklist of additional actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular situation, but you (or a family member) will likely benefit from many of them. We can narrow down the specific actions that you can take once we meet with you to tailor a particular plan. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves to make:

Year-End Tax Planning Moves for Individuals

—Higher-income earners have unique concerns to address when mapping out year-end plans. They must be wary of the 3.8% surtax on certain unearned income and the additional 0.9% Medicare tax.

—The surtax is 3.8% of the lesser of: (1) net investment income (NII), or (2) the excess of modified adjusted gross income (MAGI) over an unindexed threshold amount ($250,000 for joint filers or surviving spouses, $125,000 for a married individual filing a separate return, and $200,000 in any other case). As year-end nears, a taxpayer's approach to minimizing or eliminating the 3.8% surtax will depend on his estimated MAGI and NII for the year. Some taxpayers should consider ways to minimize (e.g., through deferral) additional NII for the balance of the year, others should try to see if they can reduce MAGI other than NII, and other individuals will need to consider ways to minimize both NII **and** other types of MAGI.

—The 0.9% additional Medicare tax also may require higher-income earners to take year-end actions. It applies to individuals for whom the sum of their wages received with respect to employment and their self-employment income is in excess of an unindexed threshold amount ($250,000 for joint filers, $125,000 for married couples filing separately, and $200,000 in any other case). Employers must withhold the additional Medicare tax from wages in excess of $200,000 regardless of filing status or other income. Self-employed persons must take it into account in figuring estimated tax. There could be situations where an employee may need to have more withheld toward the end of the year to cover the tax. For example, if an individual earns $200,000 from one employer during the first half of the year and a like amount from another employer during the balance of the year, he would owe the additional Medicare tax, but there would be no withholding by either employer for the additional Medicare tax since wages from each employer don't exceed $200,000.

—Realize losses on stock while substantially preserving your investment position. There are several ways this can be done. For example, you can sell the original holding, then buy back the same securities at least 31 days later. It may be advisable for us to meet to discuss year-end trades you should consider making.

—Postpone income until 2018 and accelerate deductions into 2017 to lower your 2017 tax bill. This strategy is especially valuable since Congress succeeded in lowering tax rates in 2018 in exchange for slimmed-down deductions. This strategy could enable you to claim larger deductions, credits, and other tax breaks for 2017 that 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. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2017. For example, this may be the case where a person will have a more favorable filing status this year than next (e.g., head of household versus individual filing status).

—If you believe a Roth IRA is better than a traditional IRA, consider converting traditional-IRA money invested in beaten-down stocks (or mutual funds) into a Roth IRA if eligible to do so. Keep in mind, however, that such a conversion will increase your AGI for 2017.

—If you converted assets in a traditional IRA to a Roth IRA earlier in the year and the assets in the Roth IRA account declined in value, you could wind up paying a higher tax than is necessary if you leave things as is. You can back out of the transaction by recharacterizing the conversion—that is, by transferring the converted amount (plus earnings, or minus losses) from the Roth IRA back to a traditional IRA via a trustee-to-trustee transfer. You can later reconvert to a Roth IRA.

—It may be advantageous to try to arrange with your employer to defer, until early 2018, a bonus that may be coming your way. This would cut as well as defer your tax since Congress reduced tax rates beginning in 2018.

—Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2017 deductions even if you don't pay your credit card bill until after the end of the year.

—If you expect to owe state and local income taxes when you file your return next year, consider asking your employer to increase withholding of state and local taxes (or pay estimated tax payments of state and local taxes) before year-end to pull the deduction of those taxes into 2017 if you won't be subject to alternative minimum tax (AMT) in 2017. Pulling state and local tax deductions into 2017 is especially beneficial since Congress eliminated such deductions beginning next year.

—Take an eligible rollover distribution from a qualified retirement plan before the end of 2017 if you are facing a penalty for underpayment of estimated tax and having your employer increase your withholding is unavailable or won't sufficiently address the problem. Income tax will be withheld from the distribution and will be applied toward the taxes owed for 2017. You can then timely roll over the gross amount of the distribution, i.e., the net amount you received plus the amount of withheld tax, to a traditional IRA. No part of the distribution will be includible in income for 2017, but the withheld tax will be applied pro rata over the full 2017 tax year to reduce previous underpayments of estimated tax.

—Estimate the effect of any year-end planning moves on the AMT for 2017, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes. These include the deduction for state property taxes on your residence, state income taxes, miscellaneous itemized deductions, and personal exemption deductions. If you are subject to the AMT for 2017, or suspect you might be, these types of deductions should not be accelerated.

—You may be able to save taxes this year and next by applying a bunching strategy to "miscellaneous" itemized deductions, medical expenses and other itemized deductions into this year. This strategy is especially beneficial since Congress eliminated such deductions beginning in 2018.

—You may want to pay contested taxes to be able to deduct them this year while continuing to contest them next year.

—You may want to settle an insurance or damage claim in order to maximize your casualty loss deduction

—Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retirement plan). RMDs from IRAs must begin by April 1 of the year following the year you reach age 70-½. That start date also applies to company plans, but non- 5% company owners who continue working may defer RMDs until April 1 following the year they retire. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. Although RMDs must begin no later than April 1 following the year in which the IRA owner attains age 70-½, the first distribution calendar year is the year in which the IRA owner attains age 70-½. Thus, if you turn age 70-½ in 2017, you can delay the first required distribution to 2018, but if you do, you will have to take a double distribution in 2018—the amount required for 2017 plus the amount required for 2018. Think twice before delaying 2017 distributions to 2018, as bunching income into 2018 might push you into a higher tax bracket or have a detrimental impact on various income tax deductions that are reduced at higher income levels. However, it could be beneficial to take both distributions in 2018 if you will be in a substantially lower bracket that year.

—Increase the amount you set aside for next year in your employer's health flexible spending account (FSA) if you set aside too little for this year.

—If you become eligible in December of 2017 to make health savings account (HSA) contributions, you can make a full year's worth of deductible HSA contributions for 2017.

—Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby save gift and estate taxes. The exclusion applies to gifts of up to $14,000 made in 2017 to each of an unlimited number of individuals. You can't carry over unused exclusions from one year to the next. Such transfers may save family income taxes where income- earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax.

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

Businesses should consider making expenditures that qualify for the business property expensing option. For tax years beginning in 2017, the expensing limit is $510,000 and the investment ceiling limit is $2,030,000. Expensing is generally available for most depreciable property (other than buildings), off-the-shelf computer software, air conditioning and heating units, and qualified real property—qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property. The generous dollar ceilings that apply this year mean that many small and medium sized businesses that make timely purchases will be able to currently deduct most if not all their outlays for machinery and equipment. What's more, the expensing deduction is not prorated for the time that the asset is in service during the year. The fact that the expensing deduction may be claimed in full (if you are otherwise eligible to take it) regardless of how long the property is held during the year can be a potent tool for year-end tax planning. Thus, property acquired and placed in service in the last days of 2017, rather than at the beginning of 2018, can result in a full expensing deduction for 2017.

Businesses also should consider making expenditures that qualify for 50% bonus first year depreciation if bought and placed in service this year. The bonus depreciation deduction is permitted without any proration based on the length of time that an asset is in service during the tax year. As a result, the 50% first-year bonus write-off is available even if qualifying assets are in service for only a few days in 2017.

—Businesses may be able to take advantage of the “de minimis safe harbor election to expense the costs of lower-cost assets and materials and supplies, assuming the costs don't have to be capitalized under the Code Sec. 263A uniform capitalization (UNICAP) rules. To qualify for the election, the cost of a unit of property can't exceed $5,000 if the taxpayer has an applicable financial statement (AFS; e.g., a certified audited financial statement along with an independent CPA's report). If there's no AFS, the cost of a unit of property can't exceed $2,500. Where the UNICAP rules aren't an issue, purchase such qualifying items before the end of 2017.

—The new tax bill allows for immediate expensing—with no set dollar limit—of all depreciable asset (other than building) investments made after Sept. 27, 2017. This is a major incentive for some businesses to make large purchases of equipment in late 2017.

—A corporation should consider deferring income until 2018 if it will be in a higher bracket this year than next since Congress succeeded in dramatically reducing the corporate tax rate beginning next year. Deferral of income until 2018 is be even more beneficial.

—A corporation (other than a “large” corporation) that anticipates a small net operating loss (NOL) for 2017 (and substantial net income in 2017) may find it worthwhile to accelerate just enough of its 2018 income (or to defer just enough of its 2017 deductions) to create a small amount of net income for 2017. This will permit the corporation to base its 2018 estimated tax installments on the relatively small amount of income shown on its 2017 return, rather than having to pay estimated taxes based on 100% of its much larger 2018 taxable income.

—To reduce 2017 taxable income, consider deferring a debt-cancellation event until 2018.

—To reduce 2017 taxable income, consider disposing of a passive activity in 2017 if doing so will allow you to deduct suspended passive activity losses.

—If you own an interest in a partnership or S corporation, consider whether you need to increase your basis in the entity so you can deduct a loss from it for this year.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you.

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