November 29, 2017

Dear Client:

As 2017 draws to a close, there is still time to reduce your 2017 tax bill and plan ahead for 2017. This letter highlights several **potential tax-saving opportunities** for you to consider. I would be happy to meet with you to discuss specific strategies.

If you've been following the news out of Washington, you probably know that we have **significant tax legislation pending**. However, the exact provisions of the final bill are dependent upon the reconciliation that emerges from the Joint Tax Committee. To a certain degree, the issues of what that reform will be and who it will benefit are not yet set in stone. So, in analyzing how we may reduce your 2017 tax burden, we should start with what we do know and how it may affect you, and only address proposed changes that we know will go into effect. Most of the proposed changes are expected to be effective January 1, 2018.

First, some general information:

Filing statuses

- There are several ways in which you can file an income tax return: married filing jointly, head of household, single, and married filing separately.
- Generally speaking, it is almost always more advantageous for a **married couple** to file married filng jointly.
- A **joint return** may be filed even though one spouse has neither gross income nor deductions.
- If one spouse dies during the year, the **surviving spouse** may file a joint return for the year in which his or her spouse died.
- Generally, in order to qualify as a **head of household**, you must maintain a household for a qualifying child or any other person who is your dependent, if you are entitled to a dependency deduction for that person.

Basic Numbers You Need to Know

- A key aspect of tax planning is to estimate both your 2017 and 2018 **adjusted gross income** (AGI). Your 2016 tax return and your 2017 pay stubs and other income- and deduction-related materials are a good starting point for estimating your AGI.
- Another important number is your "**tax bracket**," i.e., the rate at which your last dollar of income is taxed. The tax rates for 2017 have not changed from 2016, and are 10%, 15%, 25%, 28%, 33%, 35% and 39.6%.

We have compiled **individual and business checklists** 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 will likely benefit from many of them. Please contact us at your earliest convenience if you have any questions or if you would like us to tailor a tax-savings plan that will work best for you.

Very truly yours,

Kerry P. Thompson

Year-End Tax Planning Moves for Individuals

- **Penalty for Failing to Carry Health Insurance**: Despite numerous attempts by Congress to repeal Obamacare, the law is still with us for 2017, and so is the penalty for not having health insurance coverage. **You may be liable for this penalty if you or any of your dependents didn't have health insurance for any month in 2017**. The penalty is 2.5 percent of your 2017 household income exceeding the filing threshold or $695 per adult, whichever is higher, and $347.50 per uninsured dependent under 18, up to $2,085 total per family. However, you may be eligible for an exemption from the penalty.
- **Self-Employed Health Insurance Premiums**: Self-employed individuals can claim 100% of the amount paid during the taxable year for insurance that is medical care for themselves, their spouses and dependents as an above-the-line deduction, without regard to the general 10% of AGI floor.
- **Must Report Health Care Coverage**: For tax year 2017 returns, **the IRS will not consider a return complete and accurate if the taxpayer does not report full-year coverage**, claim a coverage exemption, or report a shared responsibility payment on the tax return. In prior years, the IRS did not automatically reject returns for a failure to check the box.
- If your employer sponsors a 401(k) plan, **maximize your 2017 contributions** ($18,000 + $6,000 "catch-up" if age 50+). SIMPLE plans limit at $12,500 and $3,000 "catch-up" if age 50+ for 2017.
- If you are eligible to make **Health Savings Account (HSA) contributions** in December of this year, you can make a full year's worth of deductible HSA contributions for 2017. This is so even if you first became eligible on December 1, 2017. For 2017, the contribution limit for an individual with self-only coverage under a high deductible plan is $3,400; for an individual with family coverage under a high deductible plan, $6,750. Catch up contributions of $1,000 apply when 55+ for either plan.
- You may wish to open and fund a **Sec. 529 qualified tuition plan**. Annual funding amounts are tied to the annual gift tax exclusion amount ($14,000 in 2017 or $70,000 upfront with 5-year election).
- **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.
- If you are planning to make a large charitable contribution, consider **donating substantially appreciated publicly traded stock** you've held for more than 1 year instead. This allows for the avoidance of capital gains taxes and the full value of the contribution can still be taken (subject to income limitations). Take the cash you planned to donate, and repurchase the stock donated to charity inside your brokerage account. The end result is a tax-free "step-up" of your tax basis.
- If you anticipate taxable income below $75,900 in 2017, there may be opportunities to trigger **capital gains at a 0% tax bracket**, or convert traditional IRAs to a ROTH and pay tax at a lower rate on the conversion. These opportunities depend on your facts and circumstances. If you think this may apply, contact our office prior to the end of the year.
- **Postpone income until 2018 and accelerate deductions into 2017** to lower your 2017 tax bill. This strategy may 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 is also 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's marginal tax rate is much lower this year than it will be next year.
- **Deduction in Year Paid**: An expense is only deductible in the year in which it is actually paid. Under this rule, if your tax rate is going to increase in 2018, it is a smart strategy to postpone spending until after year end to take the deduction in 2018.

- **Payment by Check**: Date checks before the end of the year and mail them before January 1, 2018.
- If you would like to **defer income on the sale of property** to future years, consider an installment sale. This may be an effective strategy to stay below the net investment income tax (NIIT) thresholds in order to avoid the additional 3.8% NII Tax.
- Consider making **contributions to Roth IRAs** instead of traditional IRAs. Roth IRA payouts are tax-free and thus immune from the threat of higher tax rates, as long as they are made (1) after a five-year period, and (2) on or after attaining age 59 1/2, after death or disability, or for a first-time home purchase. Let's discuss before you make Roth contributions since some taxpayers are unable to make contributions to Roth IRA's due to income limitations.
- If you believe a Roth IRA is better than a traditional IRA, and want to remain in the market for the long term, 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 adjusted gross income for 2017.
- It may be advantageous to try to arrange with your employer to **defer a bonus** until 2018.
- Consider **using a credit card to prepay expenses** that can generate deductions for this year, or write a check at the end of the year and be sure it is in the mail by December 31, 2017.
- **Increase your withholding** if you are facing a penalty for underpayment of federal estimated tax. Doing so may reduce or eliminate the penalty.
- You may be able to save taxes this year and next by applying a **bunching strategy to "miscellaneous" itemized deductions** (i.e., certain deductions that are allowed only to the extent they exceed 2% of adjusted gross income), medical expenses and other itemized deductions.
- It is almost certain that **the state and local tax deduction will be eliminated in 2018.** As such, you will want to accelerate your deductions into 2017.
- Important: **Charitable contributions** of money, regardless of the amount, **must be substantiated**. Taxpayers will be denied a deduction unless the donor maintains a cancelled check, bank record, or receipt from the donee organization showing the name of the donee organization, the date and amount of the contribution, and whether anything of value was received in return.
- **Make gifts sheltered by the annual gift tax exclusion** before the end of the year and thereby save gift and estate taxes. You can give $14,000 in 2017, without filing a gift tax return, to each of an unlimited number of individuals. Larger tax free gifts can be made, but please call us or an estate tax attorney to discuss. The transfers also may save family income taxes by giving income-earning property to family members in lower income tax brackets who are not subject to the kiddie tax.
- **Take required minimum distributions (RMDs) from your IRA or 401(k)** plan (or other employer-sponsored retired plan) if you have reached age 70- 1/2. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. If you turned age 70- 1/2 in 2017, you can delay the first required distribution to 2017, 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.
- U.S. persons holding any financial interest in, or signature or other authority over, **foreign financial account(s)** at any time in a calendar year must file a Report of Foreign Bank and Financial Accounts (FBAR) with the Treasury Department. The due date for 2017 is the same as the U.S. tax filing deadline of April 15, 2018 (unless extended by a weekend or holiday), with a maximum six-month extension to October 15.

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

- **Employee Health Insurance – Carrots and Sticks** ***Carrot***: For now, eligible small employers are allowed a credit for certain expenditures to provide health insurance coverage for their employees. The limitations are so small that only employers with the lowest paid employees qualify. ***Stick***: For the 2017 plan year, if you have 50 or more employees, you could be subject to an excise tax, which could be as much as $2,260 per full-time employee, for failure to offer a health care plan. Please call us if you would like to discuss the specifics of this employer "mandate".
- Businesses should **buy machinery and equipment before year end** and, under the generally applicable "half-year convention," thereby secure a half-year's worth of depreciation deductions for the first ownership year. Full expensing may be allowed, depending on the provisions of the final tax reform bill.
- Equipment Purchases: If you purchase equipment, you may make a **"§179 election"**, which allows you to **expense otherwise depreciable business property**, including computer software and qualified real property. Air conditioning and heating units qualify. You may elect to expense up to $510,000 of equipment. If the cost of your §179 property placed in service during 2017 is $2,540,000 or more, no deduction allowed.
- If you **purchase a vehicle for business purposes with a gross vehicle weight between 6,000 and 14,000 pounds,** you may be able to expense $25,000 of the cost, assuming 100% business use.
- Under regulations, a **de minimis safe harbor** states that for **repairs to be deductible**, among other requirements, the unit of property must cost less than $5,000 per invoice for taxpayers with applicable financial statements (AFS; e.g., a certified audited financial statement along with an independent CPA's report), and $2,500 per invoice for taxpayers without applicable financial statements. If there's no AFS, the cost of a unit of property can't exceed $2,500. You may get a tax deduction if you purchase such qualifying items before the end of 2017.
- If you are self-employed and on the cash-basis, **delay year-end billing** to clients so that payments will not be received until 2018. In some circumstances, you may benefit from accelerating income into 2017. Typically, this is only the case if you expect a higher tax liability in 2018 than in 2017.
- If you would like to **defer income on the sale of business property** to future years, consider an installment sale.
- If you are self-employed and haven't done so yet, **set up a self-employed retirement plan**.
- If you are an owner/employee of an S-Corporation without other employees, you may consider **establishing a defined-benefit plan**. This may allow for an increased deduction, and the ability to make contributions in a year in which you don't receive compensation.
- If you are a business manufacturer, producer, or fishing vessel owner, and you anticipate a profit in the current year, you should make sure you have **paid out adequate Form W-2 wages** in order to ensure you maximize your Domestic Production Activities Deduction ("DPAD").
- If you own an interest in a partnership or S corporation you may need to **increase your basis** in the entity so you can deduct a loss from it for this year.
- If you own an interest in a **profitable S corporation**, and actively work in the corporation, you should make sure a **reasonable salary is paid to you** out of the S corporation.
- If your S corporation pays the **health insurance premiums for shareholders** owning more than 2% of the corporation, please contact us before the end of the year to make sure the policy and payments are structured correctly.
- If you use a vehicle for business and personal use, please be sure to **take a year-end mileage reading**. To determine the tax-deductible portion of automobile expenses, also be sure you have your business miles documented with a mileage log or recreated from your calendar.

- If you use your S corporation's **automobile for personal use**, please contact us before the end of the year to make sure the policy and personal use are recorded correctly and included in W-2 wages.
- If you use your **computer or other equipment** for personal, as well as business purposes, you should be aware that a usage log is required in order to substantiate the business use of the equipment.
- Consider reviewing all fixed asset lists for **assets which may have been abandoned or sold**. Such a fixed asset "scrub" will ensure a more accurate inventory of machinery and equipment, and maximizes your tax position with respect to fixed asset transactions.
- If you have loans to or from a company you control, you should make sure the **loans are documented** with a written note carrying an adequate rate of interest, and calling for regular and periodic repayments. You should also consider lowering the rate on existing notes to the applicable Federal rate (AFR). This will reduce the amount of interest income subject to the extra 3.8% tax on unearned income.
- For 2017, certain small business employers that did not have a pension plan for the preceding three years may claim a nonrefundable **income tax credit for** expenses of establishing and administering a **new retirement plan** for employees.
- **Employer-Provided Child Care Credit**: For 2017, employers may claim a credit of up to $150,000 for supporting employee child care or child care resource and referral services. The credit is allowed for a percentage of "qualified child care expenditures" including for property to be used as part of a qualified child care facility, for operating costs of a qualified child care facility and for resource and referral expenditures
- If you're a Schedule C filer with **dependents under age 18**, consider hiring them as employees. Their wages are exempt from FICA taxes and in certain circumstances can allow you to take advantage of the domestic production activities deduction.
- If you acquired real property for business use, consider the benefits of a **cost segregation study**. A study can rapidly accelerate the pace at which the purchase price of the real property may be written off against income.
- For **C corporations** reporting on a calendar year, the **2017 filing deadline** is now on or before April 15th. Effective for returns for tax years beginning after December 31, 2016 and before January 1, 2026, there is an automatic six month extension for calendar year C corporations. For **partnerships** reporting on a calendar year, the filing deadline is March 15th. The reporting deadlines for **S corporations** have not changed and remains March 15th or the 15th day of the third month following the close of the taxable year for fiscal year S corporations.
- U.S. persons holding any financial interest in, or signature or other authority over, **foreign financial account(s) exceeding an aggregate value of $10,000** at any time in a calendar year must file a Report of Foreign Bank and Financial Accounts (FBAR) with the Treasury Department. The due date for 2017 is the same as the U.S. tax filing deadline of April 15, 2018 (unless extended by a weekend or holiday), with a maximum six-month extension to October 15.

Please contact our office if you have any questions, or would like to schedule a conference.