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Re: 2017 Year-End Tax Planning

Dear Client:

Year-end tax planning can provide most taxpayers with a good way to lower a tax bill that will otherwise be waiting for them when they file their 2017 tax return in 2018. Since tax liability is primarily keyed to each calendar tax year, once December 31, 2017 passes, your 2017 tax liability for the most part– good or bad– will mostly be set in stone.

Year-end 2017 presents a unique set of challenges for many taxpayers because of current efforts by Congress and the Trump Administration to enact tax reform legislation, the scope of which has not been seen since 1986, according to supporters. Whether this ambitious plan will be successful by the end of this year remains uncertain; but the reasons to prepare to maximize any benefits if it does happen are indisputable. Both talk of lower tax rates, and fewer deductions, requires careful monitoring at this time, with "contingency" plans ready to go before yearend should these changes occur retroactively to 2017, or starting in 2018, either immediately or under phased-in schedules. It will likely remain unclear until late November or early December whether tax reform will happen before the end of 2017, and if so, whether the law changes will be temporary or permanent and whether they will be prospective or retroactive.

Tax reform, although important, is not the only reason to engage in year-end tax planning this year. Other changes in the tax law, made by the IRS and the courts, have already taken place in 2017. Opportunities and pitfalls within these recent changes –as they impact each taxpayer's unique situation—should not be overlooked. This particularly rings true as we approach year-end 2017.

Life-cycle changes. External influences such as changes in the tax law, however, may be only part of the reason for taking some action before year's end. Changes in your personal and financial circumstances – marriage, divorce, a newborn, a change in employment, a new business venture, investment successes and downturns—may require a change-in-course tax-wise since last year. As with any 'life-cycle" change, your tax return for this year may look entirely different from what it looked like for 2016. Accounting for that difference now, before year-end 2017 closes, should be an integral part of your year-end planning.

Timing rules. Timing, and the skilled use of timing rules to <u>accelerate and defer certain income or deductions</u>, is the linchpin of year-end tax planning. For example, timing year-end bonuses or year-end tax payments, or timing sales of investment properties to maximize capital gains benefits should be considered. So, too, sometimes fairly sophisticated "like-kind exchange," "installment sale" or "placed in service" rules for business or investment properties come into play. In other situations, however, implementation of more basic concepts are just as useful. For example, taxpayers can write a check or can charge an item by credit card and treat these actions as payments. It often does not matter for tax purposes when the recipient receives a check mailed by the payor, when a bank honors the check, or when the taxpayer pays the credit card bill, as long as done or delivered "in due course."

Income tax rates. One of the most significant factors in tax planning for individuals is their tax bracket. The most direct control taxpayers have over their tax bracket rests in their ability to control the timing of income and deductible expenses. For example, taxpayers who expect to be in a lower tax bracket in 2018 should consider deferring income to 2018 and accelerating deductions into 2017. Also relevant are "tax reform" proposals that may compress tax brackets and lower tax rates. These changes could present year-end tax planning opportunities for taxpayers depending on when any proposed rate changes go into effect.

Investments. Taxpayers holding investments, whether in the form of securities, real estate, collectibles, or other assets, often have an opportunity to reduce their overall tax bill by some strategic buying and selling toward the end of the year, as well as, exchanging appreciated assets for like-kind property in order to defer gains (1031 exchange). Balancing tax considerations with other factors is part of the challenge in dealing with investments, including: the ordinary income tax rates, the net investment income tax rate, the capital gain rates, and the alternative minimum tax (AMT).

Income caps on benefits. Monitoring adjusted gross income (AGI) at year-end can also pay dividends in qualifying for a number of tax benefits. Often tax savings can be realized by lowering income in one year at the expense of realizing a bit more in another year.

Please feel free to call our offices if you have any questions about how year-end tax planning might help you save taxes. Our tax laws operate largely within the confines of "the tax year." Once 2017 is over, tax savings that are specific to this year may be gone forever.

Sincerely,

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