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Re: Planning 2017: Tax Issues for Higher-Income Individuals

Dear Client:

We know that you have worked hard for your money and would like to reap the benefits to the greatest extent possible. Your ultimate goal is to sustain a successful wealth-building strategy while avoiding unnecessary and expensive tax consequences. We are interested in helping you achieve these objectives.

For the last few years, there has been talk of major tax reform that would place an increased tax burden on higher income individuals. President Trump proposed a tax reform plan that would reduce individual tax rates, abolish the alternative minimum tax (AMT) and federal estate tax, and more. Individual rates under the President's proposal would be 10, 25 and 35 percent. At the same time, the President proposed to double the standard deduction and protect the home ownership and charitable gift tax deductions. The President also proposed to provide unspecified tax relief to families with children and dependents. The President's proposal calls for a 15 percent corporate tax rate. The 15 percent rate would also be available to small and mid-size pass-through businesses, White House officials said.

Further, the President called for elimination of unspecified tax breaks for special interests. Democrats in Congress said the President's plan favored high-income taxpayers and did not deliver enough tax breaks to lower and middle-income taxpayers. As tax reform moves into the latter half of 2017, the chances of a retroactive tax cut to include the 2017 tax year are lessened but not entirely removed from consideration. Tax planning for the balance of the year therefore should remain flexible.

Some of the issues that may impact your tax planning strategy for 2017 include:

- your marginal tax rate;
- personal exemption and itemized deduction phaseouts;
- additional 0.9 percent Medicare tax on wages and self-employment income over threshold amounts;
- net investment income tax of 3.8 percent for taxpayers with modified AGI exceeding threshold amounts;
- a capital gain rate of 20 percent for taxpayers in the highest tax bracket;
- gain exclusion for small business stock held for more than 5 years;
- foreign account disclosure and reporting requirements and related enforcement penalties;
- in-service rollovers to designated Roth accounts without the imposition of a 10-percent additional tax on early distributions;
- IRA distributions to charity of up to $100,000;
- strict rules about deducting passive activity losses (PALs); and
- Alternative Minimum Tax (AMT).

As you can see, the more complex issues faced by higher-income individuals create a challenging planning environment for the 2017 tax filing season. We would like to meet with you to discuss the options that are best suited to meet your personal financial goals while minimizing your tax liability. Please contact our office at your earliest convenience to make an appointment.

Sincerely,

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