2017 TAX PLANNING TIPS

Last minute strategies to reduce your 2017 tax bill

RETIREMENT CONTRIBUTION PLANNING:

- IRA: Remember to plan your cash flow to make an IRA contribution by April 17, 2018. The maximum 2017 IRA contribution is $5,500 ($5,500 in 2018). If you are age 50 or older by December 31, 2017, the maximum amount is $6,500. Roth IRA contributions are restricted to adjusted gross income phaseout amounts, with complete phaseout at $133,000 for single taxpayers and $196,000 for married taxpayers. IRA plans can be set up as late as April 17, 2018.
- 401K: The maximum 2017 contribution to your 401K is $18,000 ($18,500 in 2018). If you are age 50 or older by December 31, 2017 and your plan has been amended to allow it, the maximum amount is $24,000.
- SEP: The maximum 2017 SEP contribution is $54,000 ($55,000 in 2018). You have until the due date of your tax returns, including extensions, in which to make the 2017 contribution and to set up the plan.
- Roth IRA rollover: There is no adjusted gross income limitation that restricts the rollover of a regular IRA into a Roth IRA. Funds rolled over from a regular IRA to a Roth IRA will be taxed under the regular IRA distribution rules, but no penalties will apply.
- IRA One-Rollover-Per-Year Rule: You are allowed only one rollover from an IRA to another (or the same) IRA in any 12-month period, regardless of the number of IRAs you own. This applies to all IRAs including SEP and SIMPLE IRAs and traditional or Roth IRAs. Transfers that are not limited include trustee-to-trustee transfers between IRAs and rollovers from traditional IRAs to Roth IRAs.
- Required minimum distribution (RMD): Required minimum distributions must be made in 2017 for taxpayers that have reached age 70 ½. Failure to take a required withdrawal by 12/31/17 could result in a penalty up to 50% of the amount not withdrawn. You do have the option of delaying the required distribution to April 1, 2018 (this only applies to the year in which you turn 70 ½), but if so you will have to take a double distribution in 2018.
- Tax-free distributions for charity: Taxpayers over age 70 ½ are allowed to exclude IRA distributions from their gross income if they are donated to a qualified charity. This is now a permanent provision of the law.

DEDUCTION AND CREDIT PLANNING:

- Medical expenses: Medical expenses are only deductible if they exceed **10%** of your adjusted gross income. This applies to all taxpayers regardless of age (for 2013-2016, taxpayers age 65 or older were still allowed the more beneficial 7.5% limitation). California did not conform to this new provision; medical expenses are deductible for all individuals regardless of age as long as they exceed 7.5% of your adjusted gross income. Only expenses that are paid or charged on a credit card by December 31, 2017 are eligible. ***** The deduction for medical expenses has been repealed under the Tax Cuts and Jobs Act as approved by the House; the Senate's proposed bill does not change the medical expense deduction.***
- Health savings accounts: Health Savings Account (HSA) contribution limits for 2017 are $3,400 if single or $6,750 for a family. For taxpayers aged 55 or older, the limits are $4,400 if single and $7,750 for a family.
- Taxes: State taxes are deductible on your federal tax return. State estimated income tax payments and property taxes that are due in 2018 can be paid in 2017. *CAUTION*: If you are subject to AMT (alternative minimum tax), there is no tax benefit by prepaying these taxes in 2017. ***** The House approved Tax Cuts and Jobs Act repeals the state and local income tax deduction except for property taxes paid limited to $10,000. The Senate's proposal eliminates the state and local income tax deduction entirely.***

- Mortgage interest: Mortgage interest is deductible to the extent the proceeds were used to acquire, construct or improve your personal residence(s) to a maximum principal amount of $1,000,000. In addition, you are allowed a home equity loan up to $100,000 that does not have any usage requirements. Refinancing a mortgage and taking cash proceeds may impact the amount of interest that is deductible. No part of a home equity loan is deductible for AMT purposes to the extent that it is not used to acquire, construct or improve a residence. ***** The House approved Tax Cuts and Jobs Act bill reduces the maximum principal limitation from $1,000,000 to $500,000. The Senate's proposal keeps the cap at $1,000,000, but eliminates the deduction for interest paid on equity debt.***
- Energy *efficient* improvements: 2016 was the final year to claim the 10% credit for energy efficient home improvements, including extra insulation, energy saving windows or doors, or installing an energy efficient furnace.
- Energy *generating* equipment: This credit is equal to 30% of the total cost for property such as solar electric panels or solar water heaters (excluding solar heaters installed for heating a swimming pool or hot tub). This credit was extended through 12/31/2021, but is reduced to 26% in 2020 and 22% in 2021. To receive the credit in 2017, the solar property must be placed in service before 1/1/18 (even if the project is financed or paid over multiple years).
- Electric vehicle credit: The maximum credit for buying an electric vehicle is $7,500, with phaseout beginning once the automaker sells 200,000 qualifying vehicles (currently no automaker has reached the limit, but GM and Tesla are nearing their limit). ***** The House approved Tax Cuts and Jobs Act bill repeals this credit; the Senate's proposal does not change this credit.***
- Charitable contributions: Be sure to ask for receipts to substantiate all amounts for both non-cash donations and cash donations. Cash donations can also be substantiated by canceled checks or bank statements that verify the charity's name, date and amount. Donations charged on a credit card by December 31, 2017 are eligible as a deduction for 2017, even if you don't pay the credit card balance until 2018. Donations of cars, boats, and airplanes need to be reported at their fair market value. If fair market value is more than $500 and the charity does not keep the vehicle, your deduction is limited to the amount for which the charity later sells the vehicle. Charitable contributions have varied limitations based on your adjusted gross income. Any amounts not eligible due to these limitations can be carried forward for five years. Any donation deduction amount for cars, boats and airplanes of more than $500 requires your tax return to include a statement from the charity identifying the vehicle and stating the amount for which it was sold. Be sure to obtain these statements from the charity and include them with your organizer package. ***** There is no change to charitable contributions included in the Tax Cuts and Jobs Act bill under either the House or Senate's proposals.***

BUSINESS EXPENSE PLANNING:

- Health insurance premiums: As a self-employed person, you are able to deduct 100% of health insurance premiums paid for yourself, your spouse, and your dependents. This also includes dental and vision insurance, plus limited amounts for long-term care insurance. It does not include disability or life insurance.
- Depreciation:
  - *"Section 179 deduction"* Equipment purchases are eligible for a "Section 179 deduction" of up to $510,000 for 2017. The equipment must be "placed in service" by December 31, 2017. Note that purchasing too much equipment (over $2,030,000) will restrict your total "Section 179 deduction". ***** The House approved Tax Cuts and Jobs Act bill increases the Section 179 deduction limit to $5,000,000; the Senate's proposal increases the limit to $1,000,000.***
  - *Bonus depreciation* The special 50% bonus depreciation is still available through 2017. As of current law, bonus depreciation will decrease to 40% in 2018 and 30% in 2019. Bonus depreciation is only available for new (not used) purchases. ***** For both the House and***

Senate's proposed plans, the Tax Cuts and Jobs Act bill increases bonus depreciation to 100% through 2023.

INVESTMENT PLANNING:

- <u>Capital gains and losses:</u> Income that results from the sales of stock, investment property, and rental property (above depreciation recapture) is considered capital. Long-term gains result from sales that have been held over one year. The federal income tax rate on long-term capital gains is limited to 20% in 2017. The Medicare surtax of 3.8% on investment income for taxpayers with income exceeding certain thresholds also took effect in 2013. Losses are deductible to the extent of gains plus $3,000. Any excess loss is carried over to subsequent years for an unlimited amount of time. *CAUTION*: If you are subject to AMT (alternative minimum tax), the capital gains tax rate benefit may be partially offset by an increased AMT liability amount. ***** There is no change to the capital gains rate or the 3.8% net investment income tax in the proposed Tax Cuts and Jobs Act bill by either the House or Senate.***
- <u>Sale of home:</u> When selling your principal residence, you may exclude up to $500,000 of capital gain if married or $250,000 of capital gain if single. A sale of a home in 2017 (and beyond) could trigger the increased capital gain rate and the 3.8% Medicare surtax if there is a taxable gain. Since there is no exclusion for the sale of a second home, vacation home, or rental property, the entire capital gain could be subject to these higher rates for sales in 2017 and beyond. ***** There is no change to the exclusion amounts, but the Tax Cuts and Jobs Act bill proposed by both the House and Senate would require the home be used as a principal residence for at least <u>five of the last eight years</u> for sales after 12/31/17.***
- <u>Gifts:</u> Amounts transferred up to $14,000 per person per year are considered exempt from gift taxation. Amounts given above this amount require the "giver" to file a gift tax return and either elect to use part of their "life-time exclusion" or to pay a gift tax. This tax return is due April 17, 2018 or October 15, 2018 if an extension is filed. There are no requirements for the recipient of the gift. The 2018 limit is $15,000.
- <u>Social security:</u> Up to 85% of social security benefits may be taxable depending on your modified adjusted gross income. For one-time events you should give consideration to the year of receipt. Please call us for an individualized analysis.
- <u>Net operating loss (NOL):</u> A net operating loss occurs if certain non-personal income and expenses create a negative amount. This loss is first carried back to the previous two years by filing an amended tax return to claim a refund and then forward for twenty years, unless an election is made to forgo the carry back period and only go forward. ***** Net operating loss <u>carrybacks</u> are repealed under both the House and Senate's Tax Cuts and Jobs Act proposals. The House bill would allow for indefinite carryforward, but both bills would only allow a reduced NOL deduction.***

ALTERNATIVE MINIMUM TAX:

- Some of the standard year-end planning ideas will not reduce tax liability if you are subject to the alternative minimum tax (AMT) because different rules apply. Because of the complexity of the AMT, we recommend a personalized analysis of your AMT exposure, which will include the preparation of a tax projection report. ***** Both the House and Senate's bills repeal AMT entirely.***

Identity Theft Notices

<u>Identity Verification Letters</u>: If you received a notice from the IRS requesting verification of your identity, you must complete this request! The IRS is no longer requiring in-office visits and the verification can be completed online or by phone. You will need a copy of both your 2015 and 2016 tax returns readily available when completing the process. Please contact us if you need copies or have additional questions.

<u>PIN Request Letters:</u> If you completed the IRS identity theft affidavit, you should have received a letter from the IRS with instructions for requesting a PIN to be used on future year's tax returns. We strongly encourage that you complete the PIN request for added security of your tax account.