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2017 Individual Year-End Tax Planning Tips

The following is a brief overview of many year-end tax saving strategies. Some are straightforward, while others require more analysis and review to tailor them to your particular tax and financial situation. Please call on us to help you sort through the options and implement strategies that make sense for you and your situation.

Minimize Tax on Capital Gains. Generally, when you sell stock or mutual fund shares, the shares you purchased first are considered sold first. That's usually good news since it's often beneficial to qualify for the lower long-term capital gain rate by selling shares that have been held more than one year. If you are selling less than your entire holding of a specific stock or mutual fund, there may be situations where you're better off selling shares other than those that have been held the longest. For example, the newer shares may have a higher cost-basis (because you paid a higher price for them) which would result in a smaller taxable gain or even a loss that can be netted against the gain. When you want to sell shares other than those you purchased first, you must properly notify your broker as to the specific shares you want sold.

Don't Lose the Benefit of Itemized Deductions. If your itemized deductions end up being just under (or just over) the standard deduction, you can double up on itemized deductions every other year and claim the standard deductions in the intervening years. For 2017, the standard deduction is $12,700 for joint filers ($6,350 for singles). For example, if you file jointly and your property taxes (your only itemized deduction) run about $9,000 a year, you will end up claiming the standard deduction each year. Instead, you could pay two years of property taxes in 2017, getting the benefit of the $18,000 itemized deductions that year. In 2018, you would have no itemized deductions (since you paid your 2018 property taxes in 2017) and would claim the standard deduction. By bunching your itemized deductions in 2017, you will get $30,700 of deductions over the two-year period, instead of the $25,400 (ignoring the inflation adjustment to the standard deduction) you would deduct if you just claimed the standard deduction each year. Deductions that can often be shifted from year to year include certain property taxes, the final estimated state income tax payment, early state taxes, and charitable contributions.

Consider a Health Savings Account (HSA). HSA's allow you to pay medical expenses on a pretax basis. If you meet certain requirements for 2017, your HSA contribution can be up to $6,750 for family coverage and $3,400 for single coverage (plus an additional $1,000 if you're 55 or older) and can be made regardless of your income level. These contributions are 100% tax deductible above-the-line, so you benefit even if you don't itemize or are subject to high-income itemized deduction phase outs. You can then take tax-free withdrawals to pay uninsured medical expenses. Withdrawals not used for medical expenses are taxable and if taken before age 65 are subject to a 20% penalty tax. After age 65, withdrawals are taxed as ordinary income. In the meantime, they can build tax-free. It is also important to note that 2017 deductible HSA contributions can be contributed until April 15, 2018.

Realize Losses on Stock. You can take 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, and then buy back the same securities at least 31 days later. Or, if you own a fund (such as an index fund), you can sell it, and buy a similar fund right away while still claiming the loss. This works great with index funds, because as long as you buy a fund of the same index, it contains all the same securities.

Watch out for AMT. It is critical to evaluate all tax planning strategies in light of the Alternative Minimum Tax (AMT) rules before actually making any moves. AMT is a separately evaluated tax that often applies to high income individuals. Under AMT many of the deduction rules seen in the regular federal tax calculations are disallowed. This includes deductions for proper-

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ty taxes on your residence and for state income taxes, miscellaneous itemized deductions and personal exemption deductions. This makes the process of tax planning for AMT a very unique and specialized process.

Consider Contributing to 401(k) Plans that Accept Roth 401(k) Contributions. Earnings on funds in a Roth IRA grow tax-free (as opposed to merely tax-deferred as in a traditional IRA or 401(k) plan). However, higher-income taxpayers are ineligible to make Roth IRA contributions. Currently, taxpayers covered by a 401(k) plan will be able to designate some or all of their 401(k) contributions as Roth 401(k) contributions. Thus, they will be able to take advantage of tax-free growth in their retirement account just like those who are able to contribute to Roth IRAs. The 2017 contribution limit for Roth 401(k) plans is $18,000 ($24,000 if age 50 or older), which is much higher than the $5,500 ($6,500 if age 50 or older) limit on Roth IRA contributions.

One Caution: Unlike "regular" 401(k) contributions, contributions that you designate as Roth 401(k) contributions are taxed to you the year they're made. But, the benefit of tax-free earnings and distributions on those contributions (provided they're held in the plan for a certain amount of time) will often outweigh the tax-deferral on a regular 401(k) plan contribution. This is especially true if your tax rate is higher when you withdraw the money from your 401(k) plan than it was when the funds were contributed (which could be the case given the current federal deficit picture).

Convert Traditional IRA to Roth IRA. If your traditional IRA has dropped in value or you expect to pay higher federal income tax rates in future years, you might want to consider converting all or part of your traditional IRA balance into a Roth IRA. Here's why. If you convert, it will trigger a current tax hit on the amount you convert. But, with your traditional IRA balance at a depressed level (and possibly your overall income too) the tax hit will be less. After the conversion, all the income and gains that accumulate in your Roth IRA, and all withdrawals after you reach age 59 1/2, will be totally free of any federal taxes—assuming you meet the tax-free withdrawal rules. In contrast, future withdrawals from a traditional IRA could be hit with tax rates that are higher than today's rates.

Of course, conversion is not a no-brainer. You have to be satisfied that paying the upfront conversion tax bill makes sense in your circumstances. In particular, converting a big account all at once could push you into higher tax brackets, which would not be good. You must also make assumptions about future tax rates, how long you will leave the account untouched, the rate of return earned on your Roth IRA investments, and so forth. If the Roth IRA conversion idea intrigues you, please contact us for a full analysis of the tax consequences.

Be Generous. Make gifts sheltered by the annual gift tax exclusion, such as educational, medical, or political gifts, before year-end to lessen gift and estate taxes. The exclusion applies to gifts of up to $14,000 in 2017 ($28,000 for married couples) made to each of an unlimited number of individuals, but you cannot carry over unused exclusions from one year to the next. In order to qualify you must give the funds directly, and you do not get an income tax deduction for gifts to relatives.

Consider Year-End Donations. You can accelerate contributions planned for 2018 into 2017, but you must charge them or mail the checks by December 31st to ensure a write-off. Try to make your donations with appreciated stock that you've owned for over a year. This way, you can deduct the full value and never pay capital gains tax on the appreciation.

Retirement Account Contributions. Near the end of the year you may consider contributions to your Roth, traditional IRA, or other retirement savings account. The following table provides information on the contribution limits for 2017.

Maximum IRA contribution (traditional or Roth): $5,500	Maximum IRA contribution if age 50+: $6,500
Maximum 401(k) salary-deferral contribution: $18,000	Maximum 401(k) contribution if age 50+: $24,000
Maximum 403(b) salary-deferral contribution: $18,000	Maximum 403(b) contribution if age 50+: $24,000
Maximum SEP account contribution: $54,000	Maximum profit-sharing account contribution: $54,000
Maximum SIMPLE IRA salary-deferral contribution: $12,500	Maximum SIMPLE contribution if age 50+: $15,500

Conclusion. This newsletter is intended to give you just a few ideas to get you thinking about planning for 2017. We would like to discuss your situation in detail to see how these and other planning ideas can be used to reduce your tax bill. Please don't hesitate to call us if you would like more details or would like to schedule a tax planning strategy session.

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