EagleStone
Tax & Wealth Advisors

2017 Year-End Tax Planning

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Year-End Tax Planning - Overview

As the end of the year approaches, it's a good time to consider engaging in tax planning. Essentially, year-end tax planning involves the timing of income and deductions with the objective of eliminating, reducing or postponing tax liability. Unfortunately, in today's changing environment, it is not quite that simple. It is important to consider the following when evaluating tax planning ideas:

- The objective should be to achieve your personal financial or business goals in the most tax efficient manner possible.
- Minimizing taxes can potentially enhance overall investment and business returns.
- Although tax planning is most effective when done throughout the year, many tax saving strategies can be identified and implemented as year-end approaches.
- New tax legislation routinely presents tax planning opportunities. Recent tax legislation contains provisions that affect subsequent tax years. Therefore, ongoing tax planning is necessary to take advantage of tax saving strategies.
- Effective tax planning requires accurate estimates of taxable income for 2017 and 2018.
- Developing good estimates is critical to making planned tax savings a reality.
- Not every tax planning opportunity is appropriate for every person. However, identifying specific planning ideas that work for you can potentially reduce your tax liabilities.

Most tax tips, suggestions, and strategies are of little practical help without an understanding of your current tax situation. This is particularly true for year-end planning and why it is important to evaluate your current tax situation while there's still time to affect your bottom line for the 2017 tax year. Tax projections will help you estimate your present tax situation and identify any possible issues you'll need to address.

Basic Tax Planning Strategies

Timing is Everything

The last few months of the year may be the time to consider delaying or accelerating income and deductions, taking into consideration the impact on both this year's and next year's taxes.

Delaying Income & Accelerating Deductions

You may be able to defer a year-end bonus, defer the sale of capital gain property (or take installment payments rather than a lump-sum payment), or delay the collection of business debts, rents, and payments for services. Doing so may allow you to defer paying tax on the income until next year. If there's a chance that you'll be in a lower income tax bracket next year, deferring income could mean paying less tax on that income as well. Similarly, we can consider strategies to accelerate deductions into 2017. If you itemize deductions, you might accelerate some deductible expenses like medical expenses, qualifying interest, or state and local taxes by making payments before year-end. You may also consider making next year's charitable contribution this year instead.

Accelerating Income & Postponing Deductions

What if you'll be in a higher tax bracket in 2018? If you know that you'll be paying taxes at a higher rate in 2018 (say, for example, that an out-of-work spouse will be reentering the workforce in January), you might take the opposite track. Consider whether it makes sense to try to accelerate income into 2017, and to postpone deductible expenses until 2018.

Withholding from Wages

If projected that you will owe a substantial amount when you file this year's income tax return, ask your employer to increase your federal income tax withholding amounts before the year-end. Even though the additional withholding will come from your last few paychecks, it's generally treated as having been withheld evenly throughout the year. This may help you to avoid paying an estimated tax penalty due to under-withholding. If your situation is the opposite, where you have significantly overpaid your taxes and estimate you'll be receiving a large refund, you can reduce your withholding accordingly, putting money back in your pocket this year, as opposed to waiting for your tax refund to come in the following year.

Factor in the Alternative Minimum Tax (AMT)

Originally intended to prevent the very rich from using "loopholes" to avoid paying taxes, the alternative minimum tax (AMT) now reaches further into the ranks of middle-income taxpayers. The AMT is essentially a separate federal income tax system with its own rates and rules. These rules disallow certain deductions and personal exemptions that you are allowed to include in computing your regular income tax liability, and treat specific items, such as incentive stock options, differently. If you're subject to AMT, traditional year-end maneuvers, like deferring income and accelerating deductions can have a negative effect. For example, if you're subject to the AMT in 2017, prepaying 2017 state and local taxes (prior to 2017 year-end) won't help your 2017 tax situation.

IRAs and Retirement Plans - a Key Part of Planning

Make sure that you're taking full advantage of tax-advantaged retirement savings vehicles. Traditional IRAs (assuming that you qualify to make deductible contributions) and employer- sponsored retirement plans such as 401(k) plans allow you to contribute funds pretax, reducing your 2017 taxable income. Contributions you make to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) aren't deductible, so there's no tax benefit for 2017, but qualified Roth distributions are completely free from federal income tax, making these retirement savings vehicles very appealing. For 2017, you can contribute up to $18,000 to a 401(k) plan ($24,000 if you're age 50 or older), and up to $5,500 to a traditional IRA or Roth IRA ($6,500 if age 50 or older). The window to make 2017 contributions to an employer plan typically closes at the end of the year, while you generally will have until the original due date of your 2017 federal income tax return to make 2017 IRA contributions.

For 2018, the maximum 401(k) contributions have been increased to $18,500 ($24,500 if age 50 or older). Contributions into the traditional and Roth IRA will remain unchanged to the previous year.

The 2017 Tax Planning Environment

The 2016 election resulted in a Republican administration in the White House as well as Republican control of both houses of Congress. President Trump has made large-scale tax reform a top priority. In light of the recent 2018 budget approval by Senate, the first step has been made to pave the way for Trump's proposed tax reform. However, the proposed bill must still work its way through congress while not all Republicans are in complete agreement when it comes to some of the key details around the potential tax policy. So while we're likely to see changes, the specifics, scope, and timing of the provisions will likely take some time to unfold.

With all this uncertainty, one must plan based on the current tax code. When and if changes occur, that is the time to adjust accordingly and regroup with your tax professional to come up with a new tax planning strategy. We plan to disseminate updates on tax reform as it progresses through Congress.

What Tax Reform Could Look Like

The Republican tax reform framework proposes cuts to personal and business tax rates across the board. It is structured to simplify the tax code by eliminating most itemized deductions and reducing the number of personal income tax brackets. The below information contains updates through November 6, 2017.

Personal Taxes

Reducing the Number of Tax Brackets

The current seven tax brackets would become four, paying marginal rates of 12%, 25%, 35% and a top rate of 39.6% remaining in place for highest income earners. The income tax brackets would be as follows:

Rates	Single	Head of household	Married filing jointly	Married filing separately
12%	$0 - $45,000	$0 - $67,500	$0 - $90,000	$0 - $45,000
25%	$45,001 - $200,000	$67,501 - $200,000	$90,001 - $260,000	$45,001 - $130,000
35%	$200,001 - $500,000	$200,001 - $500,000	$260,001 - $1,000,000	$130,001 - $500,000
39.6%	$500,001 +	$500,001 +	$1,000,001 +	$500,001 +

Standard Deductions

The standard deduction would increase to $24,000 for married couples filing jointly (from $12,700 in 2017 under current law) and to $12,000 for single filers (from $6,350). However, there is no mention of the standard deduction for those filing as heads of household (currently $9,350). The current additional deduction for single filers who are blind and over 65 will be eliminated.

Personal Exemptions

The personal exemptions currently at $4,050 per person would be eliminated.

Enhanced Child Tax Credit and Creation of Credit for Non-Child Dependents

The child tax credit under the current law is $1,000 and refundable. The proposal would increase the income levels at which the credit phases out (currently $110,000 for married couples filing jointly, $55,000 for married couples filing separately and $75,000 for all others). The credit would rise to $1,600 and eliminate the "marriage penalty" as proposed in the House Republican plan. There would also be the creation of a $300 non-refundable credit for non-child dependents.

Alternative Minimum Tax (AMT)

The AMT would be eliminated.

Itemized Deductions

In an effort to simplify the tax code, the proposal calls for an elimination of most itemized deductions, with the exception of those for mortgage interest and charitable contributions. The state tax, local income tax and sales tax deduction would be eliminated. However, local property taxes can be deducted up to $10,000.

Estate Tax

The proposal would increase the estate tax exemption to $11.2 million (up from $5.49 million), but would be completely eliminated as of 2024.

Business Taxes

Lowered Tax Rates

The proposed top pass-through rate would be 25%. Pass-through entities include sole proprietorships, partnerships and S-corporations, which currently pay taxes based on the individual owner's earnings through the personal tax code. Restrictions would be put in place to discourage high earners from reclassifying their earnings as business profits and benefit from the lower pass-through rate. The corporate (non-passthrough) tax rate would be lowed to 20% from the current 35%.

Alternative Minimum Tax

The Corporate AMT would be eliminated.

Expensing of Capital Investments

The proposal will allow capital investments (excluding structures) to be immediately expensed, rather than depreciating the value of these assets over time as under current law. The provision would extend at least through 2022.

Foreign Earnings

Corporate profits from overseas would no longer be taxed, but there would be a minimum 12 percent tax on foreign subsidiaries.

Other Business Tax Considerations

- Methods to reduce corporate double taxation
- Place unspecified limits on the net interest deductions utilized by C-corporations
- Put in place measures to discourage off-shoring and corporate inversions

In Summary

The above highlights some of the key year-end tax planning areas for consideration along with changes and potential changes governing the tax law. Since all these provisions together are quite complicated, we suggest an analysis be performed using tax software to calculate your approximate 2017 tax liability between now and the end of the year.

Please contact our office if you have any specific questions or need further guidance. We appreciate the opportunity to be of service to you.

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