

December 2016

To Our Clients and Friends:

We have listed below some money-saving ideas that you may want to put in action before the end of 2016:

- Postpone income and bonuses until 2017 and accelerate deductions into 2016 to lower your 2016 tax bill, unless you expect to be in a higher tax bracket for 2017.
- For 2016, the standard deduction is \$12,600 for married taxpayers filing joint returns. For single taxpayers, the amount is \$6,300. These amounts will be \$12,700 and \$6,350 respectfully for 2017. If your total itemized deductions are normally close to these amounts, you may be able to leverage the benefit of your deductions by bunching deductions in every other year. This allows you to time your itemized deductions so that they are high in one year and low in the next. You can claim actual expenses in the year they are bunched and take the standard deduction in the intervening years. For instance, you might consider moving charitable donations you normally would make in early 2017 to the end of 2016.
- If you itemize your deductions, consider using a credit card to pay certain deductible expenses before the end of the year. You can take the deduction even if the credit card bill is not paid until 2017.
- If you itemize your deductions, consider prepaying state and local taxes/increase your withholding before the end of the year, unless you tend to be subject to alternative minimum tax (AMT).
- If you have appreciated stock (or mutual fund shares) that you've held more than a year and you plan to make significant charitable contributions before year-end, keep your cash and donate the stock instead. You'll avoid paying tax on the appreciation, but will still be able to deduct the donated property's full value. However, if the stock is now worth less than when you acquired it, sell the stock, take the loss, and then give the cash to the charity. If you give the stock to the charity, your charitable deduction will equal the stock's current depressed value, and no capital loss will be available.
- Solve an underpayment of estimated tax problem. Because of the additional .9% Medicare tax and/or the 3.8% surtax on unearned income, more individuals may be facing a penalty for underpayment of estimated tax than in prior years. An employed individual who is facing a penalty for underpayment of estimated tax as a result of either of these new taxes or for any other reason should consider asking his employer—if it's not too late to do so—to increase income tax withholding before year-end. Generally, income tax withheld by an employer from an employee's wages or salary is treated as paid in equal amounts on each of the four estimated tax installment due dates. Thus, if an employee asks his employer to withhold additional amounts for the rest of the year, the penalty can be retroactively eliminated. This is because the heavy year-end withholding will be treated as paid equally over the four installment due dates.
- Between now and year-end, review your securities portfolio for any losers that can be sold before year-end to offset gains you have already recognized this year or to get you to the \$3,000 (\$1,500 married filing separate) net capital loss that's deductible each year.

- Make sure you have adequate health insurance coverage (referred to as minimum essential coverage). If you don't, you may be subject to a penalty. Medical insurance provided by your employer or through an individual plan purchased through a state insurance marketplace generally qualifies for adequate coverage. The penalty amount varies based on the number of uninsured members of your household and your household income. The penalty is \$695 per person, limited to \$2,085 per household.
- Make HSA contributions. Under Code Sec. 223(b)(8)(A), a calendar year taxpayer who is an eligible individual under the health savings account (HSA) rules for December 2016, is treated as having been an eligible individual for the entire year. Thus, an individual who first became eligible on, for example, Dec. 1, 2016, may then make a full year's deductible-above-the-line contribution for 2016. If he makes that maximum contribution, he gets a deduction of \$3,350 for individual coverage and \$6,750 for family coverage (those age 55 or older also get an additional \$1,000 catch-up amount).
- Make year-end gifts. A person can give any other person up to \$14,000 for 2016 without incurring any gift tax. The annual exclusion amount increases to \$28,000 per donee if the donor's spouse consents to gift-splitting. Annual exclusion gifts take the amount of the gift and future appreciation in the value of the gift out of the donor's estate, and shift the income tax obligation on the property's earnings to the donee who may be in a lower tax bracket (if not subject to the kiddie tax).
- Be sure to take required minimum distributions (RMDs). Taxpayers who have reached age 70- 1/2 should be sure to take their 2016 RMD from their IRAs or 401(k) plans (or other employer-sponsored retired plans). Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. Those who turned age 70-1/2 in 2016 can delay the first required distribution to 2017. However, taxpayers who take the deferral route will have to take a double distribution in 2017 — the amount required for 2016 plus the amount required for 2017.
- If you own an interest in a partnership or S corporation that you expect to generate a loss this year, you may want to make a capital contribution (or in the case of an S corporation, loan it additional funds) before year end to ensure you have sufficient basis to claim a full deduction.
- And finally, watch out for the Alternative Minimum Tax (AMT) in all of your planning because what may be a great move for regular tax purposes may create or increase an AMT problem.

Income tax planning will be challenging after 2016. Unless Congress acts, a number of popular deductions and credits expire and won't be available for 2017. These items include; the above the line deduction for qualified tuition and related expenses, cancellation of mortgage indebtedness on a principle residence of up to \$2M, mortgage insurance premiums treated as qualified residence interest, the 7.5% of adjusted gross income floor beneath medical expense deductions for taxpayers age 65 or older, and the \$500 energy credit for home improvements. Congress could revive some or all of these favorable tax breaks as they have done in the past. However, the actions Congress will take and when they will be taken remains to be seen given the political climate.

Again, these are just a few suggestions to get you thinking. If you'd like to know more about them or want to discuss other ideas, please feel free to call us.

Very truly,

STEVEN E. SENDER CPA, LTD.

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