STEVEN E. SENDER CPA, LTD.

ACCOUNTING TAX PLANNING & COMPLIANCE BUSINESS ADVISORY

December 2017

To Our Clients and Friends:

We have listed below some tax-saving ideas that you may want to put into action before the end of 2017:

- Postpone income and bonuses until 2018 and accelerate deductions into 2017 to lower your 2017 tax bill, unless you expect to be in a higher tax bracket for 2018.

- For 2017, the standard deduction is $12,700 for married taxpayers filing joint returns. For single taxpayers, the amount is $6,350. In prior years, we would recommend that you bunch your deductions in order to itemize every other year if you cannot itemize every year. However, this year, there is pending tax legislation that needs to be reconciled and something is likely to pass. Congress wants to double the standard deduction starting with 2018 and wants to eliminate or limit certain itemized deductions. If Congress can reconcile the two tax bills and pass such legislation, many people will no longer be able to itemize their actual expenses. Therefore, you may want to take a different direction in 2017 while there is still time. Provided it does not cause you to be subject to AMT, you could pay state and local taxes and real estate taxes this December. The same applies to charitable donations and any other itemized deduction for that matter where you can control the timing of the payment. If no tax legislation is passed, it generally comes down to the timing of the deduction, as you still took it.

- 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 2018.

- 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). This could lower your Federal income taxes.

- 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.

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- 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 2017, is treated as having been an eligible individual for the entire year. Thus, an individual who first became eligible on, for example, Dec. 1, 2017, may then make a full year's deductible-above-the-line contribution for 2017. If he/she makes that maximum contribution, he/she gets a deduction of $3,400 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 2017 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 2017 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 2017 can delay the first required distribution to 2018. However, taxpayers who take the deferral route will have to take a double distribution in 2018 — the amount required for 2017 plus the amount required for 2018.

- 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, a shareholder loan) 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 2017. As you are aware, Congress is currently working on tax reform legislation. Both the House and Senate have passed their own tax bills, which require reconciliation. The bills share a lot of common ground, but they also have some big differences. This is not a done deal yet, although it seems more likely than not they will get this done given the political pressures.

There also are a number of popular deductions and credits that expired that have not been renewed. So far, Congress has not really addressed these tax breaks as part of tax reform at this time.

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.

Disclaimer: This document represents general information based on current tax laws and should not be relied upon without an independent, professional analysis of how any of these items may apply to your specific situation. Any tax information contained in the body of this narrative was not intended or written to be used, and cannot be used, by the recipient for the purposes of avoiding penalties that may be imposed under the Internal Revenue Code or provisions of applicable state or local law.

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