

## TAX PLANNING IN A CHANGING ECONOMY

When the new Administration moves into Washington in January 2017, it is clear that changes will follow. How these changes will impact your long-term tax situation remains to be determined. The potential for all-encompassing tax reform overhaul on the horizon makes the future more difficult to predict than in prior years. Nevertheless, in looking forward, you should not lose sight of the short-term savings you can achieve through year-end tax planning strategies.

### TAX PLANNING FOR INDIVIDUALS

Being able to balance the impact of existing tax rates on a variety of transactions during the year and at year-end can often be challenging. There is a lot to consider between the ordinary income tax rates, the alternative minimum tax, the capital gain rates, and the net investment income tax—and all of these may play a role for certain individuals.

#### INCOME TAX RATES

Income tax rates are 10, 15, 25, 28, 33, and 35 percent, with a tax rate of 39.6 percent on taxable income over a threshold amount. For 2016, the threshold amounts are:

- \$466,950 for married taxpayers filing jointly and surviving spouses;
- \$233,475 for married taxpayers filing separately;
- \$441,000 for heads of households; and
- \$415,050 for single taxpayers.

#### ALTERNATIVE MINIMUM TAX (AMT)

Determining the AMT is complicated because regular taxable income must be recomputed under special rules. Many deductions allowed in computing regular taxable income are not allowed for AMT, and certain income that is otherwise non-taxable must be included in AMT income. If your AMT is more than your regular tax, you are required to pay the AMT amount. In arriving at your AMT taxable income, an AMT exemption is allowed. The AMT rates are 28 percent and 26 percent, and the AMT exemptions phase out at higher income levels. For 2016, the AMT exemption amounts are:

- \$83,800 for married taxpayers filing jointly and surviving spouses;
- \$53,900 for unmarried taxpayers and heads of households; and
- \$41,900 for married taxpayers filing separately.

When considering year-end planning strategies it is important to look at the AMT effect. Being subject to the AMT may negate other year-end tax strategies.

## ADJUSTED GROSS INCOME CAPS

Monitoring adjusted gross income (AGI) at year-end can also pay dividends in qualifying for a number of tax benefits. Often tax savings can be realized by lowering income in one year, at the expense of realizing a bit more in the other: in this case, either 2016 or 2017. Tax benefits that get phased out depending on the taxpayer's AGI level include:

- Itemized deductions
- Personal exemptions
- Education savings bond interest exclusion
- Maximum child's income on parent's return (form 8814)
- Medical savings account adjustments
- Education credits
- Student loan interest deduction
- Adoption credits
- Maximum Roth IRA contributions & maximum deductible IRA contributions

Look to take advantage of all pre-tax employer benefits offered to you as an employee, such as 401(k) deferrals; contributions to a flexible spending account (FSA) or health savings account (HSA); and dependent care benefits to help reduce your overall taxable and adjusted gross income.

## NET INVESTMENT INCOME TAX (NIIT)

Individuals are subject to an additional 3.8 percent tax, called NIIT, on the lesser of net investment income (typically interest, dividend, capital gains, and other passive income), or the excess of modified adjusted gross income over the threshold amount. The threshold amounts of a taxpayer's modified adjusted gross income are:

- \$250,000 for married taxpayers filing jointly and surviving spouses;
- \$125,000 for married taxpayers filing separately; and
- \$200,000 for all other taxpayers.

**TAX TIP >>** If possible, attempt to keep general income below the threshold amounts by spreading income out over a number of years, or work to offset the income with above line deductions.

## ADDITIONAL MEDICARE TAX

The additional Medicare Tax is 0.9 percent of covered wages and other compensation above threshold dollar amounts that mirror the threshold amounts of the NIIT tax regime.

## CAPITAL GAINS + DIVIDENDS

The favorable tax rates on qualified capital gains (net long-term gains) and dividends range from zero to twenty percent, depending on an individual's tax bracket:

Income Tax Bracket	Capital Gains Rate
36.9%	20%
35%	15%
33%	15%
28%	15%
25%	15%
15%	0%
10%	0%

**TAX TIP >>** If you have significant income from capital gain transactions that will be subject to both capital gain rates and the NIIT discussed earlier, consider a year-end review of your investment portfolio to take advantage of investments in a loss position and reduce the overall tax costs of realized gains. If any of the investments sold at a loss remain an attractive investment opportunity, be sure to wait **more than 30 days** to repurchase the same investment to avoid the wash-sale rules, which would disallow the earlier loss. Pay special attention to minimizing short-term gains by offsetting short-term gains with short-term losses, as the combined federal and state tax implications of short-term realized gains are in excess of 50 percent.

## RETIREMENT PLAN LIMITS

### 401(k) Contribution Limits

- 2016 Year: \$18,000 + catch-up contribution of \$6,000 for individuals age 50 and over.

### Traditional + ROTH IRA Contribution Limits

- 2016 Year: \$6,000 + catch-up contribution of \$1,000 for individuals age 50 and over.
- Contributions to traditional IRAs are potentially tax deductible if you are not participating in an employer retirement plan. A Roth IRA offers nondeductible contributions and potentially tax-free withdrawals in retirement.

2017 401(k) and IRA contribution limits will remain at their 2016 year levels.

## LIFE EVENTS

Life events such as marriage, birth or adoption of a child, a new job (or loss of one), and retirement all have an impact on year-end tax planning.

## YOUR FINANCIAL PLAN

One thing you can count on over time is that there will be changes to the underlying tax laws that could potentially impact you. A financial plan tailored to your specific needs and goals is a great tool to help you navigate an increasingly complex financial landscape. Establishing a plan, revisiting it on a regular basis, and taking the time to make planning a year-round activity can help you make the appropriate adjustments as needed, avoid potential pitfalls, and keep you on track to reach your long-term objectives.

## TAX PLANNING FOR BUSINESSES

Business tax planning not only involves economic planning for the current year, but also making wise tax decisions that will benefit the business for years to come. Tax saving strategies must take into account both short- and long-term goals, so that decisions made for the current tax year also represent sound tax decisions in following years. Having an understanding of the general timing rules of when an item becomes taxable and when it may be deferred; and likewise, when a deduction or credit is realized and when it can be deferred into next year and beyond, can have a large impact on year-end tax planning. Often, because business planning opportunities must be viewed in conjunction with personal tax planning, a taxpayer should also consider planning tips affecting their individual return and investment considerations when making business decisions.

### SECTION 179 EXPENSING + BONUS DEPRECIATION DEDUCTIONS

Recent legislation permanently sets the Code Sec. 179 expensing limits for both new and used property at \$500,000, with a \$2 million overall investment limit before phase out (both amounts are index for inflation going forward beginning in 2016) for qualifying property that is used in an active trade or business.

The bonus depreciation (for new first-time use property only) was temporarily extended for five years with the “bonus” percentage beginning at 50 percent for 2015-2017, declining to 40 percent in 2018, and 30 percent in 2019 tax years.

- The election to use the AMT credit in lieu of bonus depreciation was also extended.

### RESEARCH + DEVELOPMENT CREDIT

The R+D tax credit was made permanent as a result of recent legislation. It was also modified to allow a qualified small business to claim the credit against their AMT liability and qualified start-ups (who may not have a current tax liability as they are in the “start-up” phase) to claim a portion of the credit against their employer FICA liability.

### RETIREMENT PLANNING

The tax benefits associated with employer sponsored retirement plans can help you save current tax dollars and help you build your retirement savings. 401(k) plans, Cash Balance Defined Benefit plans, SEP IRAs and Simple IRAs all offer the opportunity for you to invest and save for retirement.

### CONCLUSION

Through careful planning, you may be able to significantly reduce your 2016 tax liability—but don’t delay! The longer you wait, the less likely it is that you will be able to achieve a meaningful reduction. Please do not hesitate to call us with questions, or for additional strategies to reduce your tax bill. It’s our pleasure to be your trusted advisor.