CORDASCO
& COMPANY P.C.
Certified Public Accountants

2017

YEAR-END INCOME TAX PLANNING FOR INDIVIDUALS
Long Format

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INTRODUCTION

With year-end approaching, this is the time of year we *"normally"* suggest possible year-end tax strategies for our clients. However, from a tax-planning standpoint, 2017 is not a *"normal"* year. For the first time in over 30 years, we are facing the real possibility that Congress could pass major tax reform legislation, which could happen by the end of this year. As we completed this letter, the House Ways and Means Committee had recently released (on November 2, 2017) the initial draft of its Tax Reform Bill which, if enacted, would make significant changes impacting individuals. For example, if enacted, this proposed legislation would: Lower individual tax rates; Substantially increase the standard deduction; Reduce and/or eliminate most itemized deductions; and, Eliminate the alternative minimum tax. We have included in this letter a general overview of key provisions included in this proposed legislation.

Caution! The status of this legislation is fluid. It is not possible to predict with precision what changes will be included in any *"final"* tax bill, when it will be passed, or even whether final tax reform legislation will be passed at all. Moreover, many of the changes that are currently being discussed could be modified or even dropped altogether in the final legislation. Planning Alert! We are ***closely monitoring this proposed legislation. Feel free to call our firm for a status report.***

Notwithstanding the uncertainty of tax reform, this letter outlines certain traditional year-end tax planning strategies we think you should consider. Traditional year-end tax planning strategies include deferring *"income"* to a later year and accelerating *"deductions"* into the current year. If tax reform legislation passes this year, these strategies may prove even more beneficial than expected. For example, the proposed legislation calls for a reduction in tax rates. If tax rate reduction is enacted and becomes effective in 2018, there will likely be many more individuals in higher tax brackets in 2017 as compared to 2018. Therefore, it is possible that deferring income into 2018 may benefit a larger number of individuals than otherwise expected. Moreover, if tax reform eliminates or limits current deductions starting in 2018, accelerating those deductions into 2017 may preserve a deduction that might otherwise be lost altogether.

Planning Alert! Due to the uncertainty of tax reform, we believe the best approach is to delay the implementation of tax-savings strategies as long as possible - but be ***prepared to act quickly near the end of 2017***!

Be Careful! Tax planning strategies suggested in this letter may subject you to the alternative minimum tax (AMT). For example, many deductions are not allowed for AMT purposes, such as: personal exemptions, the standard deduction, state and local income taxes, and real estate taxes. Therefore, ***we suggest that you call our firm before implementing any tax planning technique discussed in this letter.*** You cannot properly evaluate a particular planning strategy without calculating your overall tax liability (including the AMT and any state income tax) with and without that strategy. Please Note! This letter contains ideas for Federal income tax planning only. ***State income tax issues are not addressed.***

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PROPOSED TAX REFORM LEGISLATION RELEASED NOVEMBER 2, 2017 –
GENERAL OVERVIEW

As noted in the Introduction, on ***November 2, 2017,*** the House Ways and Means Committee released its initial proposed tax reform bill entitled ***"The Tax Cuts And Jobs Act of 2017"*** (the ***"Act").*** As this proposed legislation works its way through Congress, new proposals will likely be added and certain current proposals will be modified or even eliminated altogether. Moreover, it is still up in the air whether and when this promised tax reform legislation will be enacted. However, this initial bill provides us with the most detailed guidance to date regarding the types of tax changes Congress and President Trump will be debating. Caution! Over the upcoming weeks, there will likely be reports of proposed tax changes that we do not discuss below. However, we closely monitor major proposed tax legislation in Congress, so feel free to call our firm if you have questions about proposals not discussed below or you simply need a status report.

The ***Act*** contains over 400 pages of detailed legislative proposals. It is well beyond the scope of this letter to provide a detailed discussion of this mammoth bill. Therefore, we highlight below only selected provisions in the ***Act*** that we believe, if enacted, could have a significant impact on ***"Individual"*** taxpayers.

Unless stated otherwise, the proposals listed below *would not be effective until 2018*!

Lower Tax Rates. The *Act* would generally reduce the current seven individual tax-rate brackets to four (12%, 25%, 35%, and 39.6%). The lowest 12% rate would apply to the first $90,000 of taxable income for joint filers ($45,000 for singles), and the top 39.6% rate would apply to taxable income exceeding $1,000,000 for joint filers (exceeding $500,000 for singles). The tax rate on long-term capital gains (and presumably qualified dividends) would generally be consistent with current law.

Increased Standard Deduction And The Elimination Of Personal And Dependancy Exemptions. The *Act* would eliminate the personal and dependancy exemptions altogether, and replace them with a larger standard deduction ($24,400 for joint filers; $18,300 for unmarried individuals with a qualifying child; and $12,200 for singles).

Targeted Family Tax Credits. The *Act* would increase the child credit to $1,600 (up from the current $1,000) per qualifying child, and create a new $300 credit for each individual and each dependent of that individual (other than a qualifying child).

Repeal Of Certain Deductions And Credits. The *Act* would repeal the following deductions: State and local ***"income"*** taxes; Personal casualty losses; Alimony; Medical expenses; Moving expenses; and, several others. The Act would also repeal several individual tax credits, including the *"Adoption Credit"* and the credit for *"Plug-in Electric"* cars.

Certain Deductions Would Be Retained. The *Act* would generally retain deductions for: Home mortgage interest (However, it would lower loan amounts and make other changes for loans after November 2, 2017); State and local ***"property"*** taxes up to $10,000); and, Charitable contributions.

Education Tax Relief Provisions. The *Act* would repeal many of the tax breaks for education costs, including: Student loan interest deduction; Life-Time Learning Credit; Deduction (up to $4,000) for qualified tuition; and several others. However, the *Act* would retain and expand: the *"American Opportunity Tax Credit,"* and tax-favored 529 College-Savings Plans.

Exclusions For Home-Sale Gains. Effective for ***sales or exchanges after 2017,*** the *Act* would make the following changes to the home-sale gain exclusion rules: **1)** Require an individual to own and use a home as the individual's principal residence for ***5 out of the previous 8 years*** (instead of 2 out of the previous 5 years) to qualify for the up to $500,000 or $250,000 home-sale exclusion, **2)** Allow the taxpayer to use the home-sale exclusion ***only once every five years*** (instead of once every two years as under current law), and **3)** ***Reduce the exclusion for*** each dollar of an individual's ***average AGI*** (average of the current and prior two years) ***in excess of $500,000*** ($250,000 for single filers).

Elimination Of The Alternative Minimum Tax And Estate Tax. The Act would repeal the *"Alternative Minimum Tax"* (AMT) after 2017. It would also repeal the *Estate Tax* for ***individuals dying after 2023.*** The Gift Tax would be retained.

Caution! We have highlighted only *selected* tax changes contained in the *Act* that would impact individuals, there are many more changes in this mammoth tax bill! If you have heard about other proposed tax changes not discussed above, and you need more information, please call our office.

LEGISLATIVE AND ADMINISTRATIVE TAX RELIEF FOR HURRICANE VICTIMS

On September 29, 2017, President Trump signed the ***"Disaster Tax Relief and Airport and Airway Extension Act of 2017"*** (*"Disaster Relief Act"*) providing tax relief for victims of Hurricanes Harvey, Irma, and Maria. The IRS has also released a series *of* ***Announcements*** providing additional administrative relief for taxpayers impacted by the hurricanes. The relief generally applies to individuals and businesses located in Florida, Georgia, certain counties in Texas, certain counties in South Carolina, certain parishes in Louisiana, parts of Puerto Rico, and the Virgin Islands. In some situations, taxpayers not located in these disaster areas may qualify for relief (e.g., Where business records are located in the designated disaster areas or where taxpayers own an interest in an S corporation or partnership with primary business operations in the designated disaster areas).

Tax relief under the *Disaster Relief Act* generally includes: Larger deductions for personal casualty losses; Expanded options to take tax-favored withdrawals or loans from retirement plans; Option of using current or prior year's income for purposes of claiming the earned income and child tax credits; and Increased limitation on charitable contribution deductions for individuals making qualifying charitable contributions for hurricane disaster relief.

IRS administrative relief includes automatic extensions of various IRS deadlines. ***For example,*** the IRS has extended ***until January 31, 2018*** the deadlines for filing the following returns: Individual, corporate, and estate and trust income tax returns that were ***otherwise due***: **1)** On or after ***August 23, 2017*** for ***qualifying Texas taxpayers,*** **2)** On or after **August 27, 2017 for qualifying Louisiana taxpayers, 3)** On or after ***September 4, 2017 for Florida taxpayers,*** **4)** On or after ***September 6, 2017 for qualifying South Carolina taxpayers,*** and **5)** On or after ***September 7, 2017 for Georgia taxpayers.*** Caution! This automatic extension generally applies to ***individual filers*** with ***extensions of time to file until October 16, 2017,*** and to ***business returns*** with ***extensions until September 15, 2017.***

KEEP AN EYE ON CERTAIN PREVIOUSLY-EXPIRED TAX BREAKS

For over a decade, we have been faced with the potential expiration of a long list of popular tax breaks. Historically, Congress temporarily extended the majority of these tax breaks every few years. Fortunately, last year's ***Protecting Americans From Tax Hikes Act Of 2015 (PATH Act)*** made many of these tax breaks permanent. However, several popular tax breaks ***expired at the end of 2016,*** because they were not extended by the PATH Act**.** Tax breaks that

expired after 2016 include: Deduction (up to $4,000) for Qualified Higher Education Expenses; Deduction for Mortgage Insurance Premiums as Qualified Residence Interest; Income Exclusion For Discharge Of "Qualified Principal Residence Indebtedness;" 30% Credit For Qualified Energy-Efficient Fuel Cell Property; Small Wind Energy Property; Geothermal Heat Pump Property; and 10% Credit (with a lifetime cap of $500) for Qualified Energy-Efficient Home Improvements (e.g., qualified energy-efficient windows, storm doors, roofing). Caution! Congress has traditionally extended a majority of these tax breaks in the past. However, in light of the current push for tax reform, it is much less likely that they will be extended beyond 2016. However, there is always a chance.

- Planning Alert! The 30% tax credit for ***"Qualified Solar Electric Property"*** and ***"Qualified Solar Water Heating Property"*** doesn't begin phasing out until ***after 2019.*** This 30% credit applies if you install the qualifying energy-efficient solar property in or on property located in the U.S. that you use as a residence. The residence does ***not*** have to be your ***"principal residence."*** So, installations for a second residence or vacation home may qualify. The 30% credit also applies to the on-site installation costs. If you are the initial purchaser of your newly-constructed residence that contains a qualifying solar water heater or solar electric generating property, you should ask the builder to provide you with a reasonable allocation of the cost of the home attributable to the qualified solar-energy property (including labor costs for on-site preparation, assembly, and installation of the property). Caution! To ***take the 30% credit for 2017,*** the property must ***actually be installed*** no later than ***December 31, 2017.***

TRADITIONAL YEAR-END TAX PLANNING TECHNIQUES

POSTPONING TAXABLE INCOME MAY SAVE TAXES

Deferring taxable income from 2017 to 2018 may reduce your income taxes if your effective income tax rate for 2018 will be lower than your effective income tax rate for 2017. For example, the deferral of income could cause your 2017 taxable income to fall below the thresholds for the highest 39.6% tax bracket (i.e., $470,700 for joint returns; $418,400 if single). In addition, if you have income subject to the 3.8% Net Investment Income Tax (3.8% NIIT) and the income deferral reduces your 2017 modified adjusted gross income (MAGI) below the thresholds for the 3.8% NIIT (i.e., $250,000 for joint returns; $200,000 if single), you may avoid this additional 3.8% tax on your investment income. Planning Alert! If tax reform is enacted and the tax rates for 2018 are reduced, deferring income beyond 2017 could generate even larger tax benefits than expected under the current tax rules.

If, after considering all factors, you believe deferring taxable income into 2018 will save you taxes, consider the following strategies:

Deferring Self-Employment Income. If you are a self-employed individual using the cash method of accounting, consider delaying year-end billings to defer income until 2018. Planning Alert! If you have already received the check in 2017, deferring the deposit of the check does not defer the income. Also, you may not want to defer billing if you believe this will increase your risk of not getting paid.

Using Installment Sales To Defer Taxable Gain. If you plan to sell certain appreciated property in 2017, you might be able to defer the gain until later years by taking back a promissory note instead of cash. By taking a promissory note, you may qualify for the *"installment method"* which allows you to pay tax on the gain only as you collect payments on the note. Qualifying for the *installment method* not only defers the time you must pay the tax on the gain, but could also defer all or a portion of the gain into later years when your expected tax rate is less than your 2017 tax rate. For example, spreading the gain over several years could reduce the seller's income tax in the year of sale (and possibly

subsequent years) by reducing the tax rates on long-term capital gains below the top 20% capital gains rate. This could also prevent the seller's income from exceeding the thresholds for the 3.8% NIIT (discussed in more detail below). Planning Alert! Although the sale of real estate and closely-held stock generally qualifies for installment sale treatment, some sales do not. For example, even if you are a cash-method taxpayer, you cannot use the installment method gain-deferral technique if: **1)** You sell publicly-traded stock or securities, **2)** You sell real estate that is *held primarily for sale to customers* (as opposed to holding it for investment), **3)** You sell a partnership or LLC interest to the extent the partnership or LLC owns certain appreciated disqualifying property (e.g., property producing depreciation recapture, property held primarily for sale to customers, unrealized receivables). Caution! You may not want to take back a promissory note in lieu of cash if you believe this reduces your chances of getting paid.

Postponing Cancellation Of Debt Income. If you negotiate or arrange a reduction or cancellation of a debt you owe to others, unless you meet certain exceptions, you will generally have to report *"cancellation of debt"* (COD) income. For example, you could have COD income where: Your creditor, such as a credit card company, agrees to accept as full payment an amount which is less than the amount you owe; You own real estate subject to a mortgage and the lender forecloses on the property (or, you enter into a short sale of the mortgaged property); You own an interest in a partnership (or LLC) or "S" corporation and the partnership or S corporation has COD income. Planning Alert! If you are in the process of negotiating an agreement with your creditors that involves a debt reduction that would trigger COD income, consider postponing the action ***until after 2017*** to defer any debt cancellation income into 2018.

Planning For Required Distributions From IRAs. Generally, once you reach age 70½, you are required to begin taking "*Required Minimum Distributions*" (RMDs) from your IRA or qualified retirement plan account. A 50% penalty applies to the excess of the *"Required Minimum Distribution"* (RMD) over the amount actually distributed. You might wish to consider the following ideas concerning RMDs which might save you money.

- IRA Owners Who Attain Age 70½ During 2017. If you reached age 70½ at any time during 2017, you must begin distributions from a traditional IRA account ***no later than April 1st of 2018.*** In addition, if you wait until 2018 to take your first payment, you will still be required to take your second RMD no later than December 31, 2018, which will cause you to *"bunch"* two payments into 2018. This *"bunching"* of the first two annual payments into one tax year (2018) could cause you to pay higher overall taxes if the bunching puts you in a higher tax bracket for 2018 than for 2017. However, if you expect your 2018 tax rate on the "bunched" payments to be lower than your tax rate on the first payment, if made in 2017, it could save you overall taxes to "bunch" the 2017 and 2018 RMDs into 2018.

- Individuals Making Charitable Contributions Who Are Age 70½ Or Older. If you have reached ***age 70½*** and you are planning to make charitable contributions before the end of 2017, there is a special tax break that could apply to you. For the past several years, we have had a popular rule that allows taxpayers, who ***have reached age 70½,*** to have their IRA trustee transfer ***up to $100,000*** from ***their IRAs directly to a qualified charity,*** and ***exclude the IRA transfer from income.*** The IRA transfer to the charity also counts toward the IRA owner's "*Required Minimum Distributions"* (RMDs) for the year. For those who wish to make charitable contributions, this tax break effectively allows a qualifying taxpayer to exclude all or a portion of their otherwise taxable RMDs from taxable income. This, in turn: **1)** Could cause your 2017 modified adjusted gross income (MAGI) to stay below the thresholds for the 3.8% NIIT (i.e., $250,000 for joint returns; $200,000 if single), that might otherwise be imposed on your investment income (e.g., dividends, interest, capital gains), and **2)** Could also increase various credits and deductions for 2017 that would otherwise be phased out as your *adjusted gross income* increases. In addition, this could potentially reduce the portion of your social security payments that would otherwise be taxable. Moreover, this exclusion could reduce the amount of your Medicare Part B and Part D premiums for subsequent years which generally increase as your MAGI increases. Tax Tip. To qualify, the check from your IRA must be made out *"directly"* to your designated

charity. In addition, if the ***contribution is $250 or more,*** you must get a ***timely, qualifying receipt*** from the charity for the charitable contribution.

Planning Alert! To take advantage of this exclusion for 2017, the **trustee** of your IRA ***must write the check to the charity by December 31, 2017.*** It may take the IRA custodian several days to complete all the necessary paper work to write the check. Consequently, you should alert the trustee that you want the check written to the charity ***well before December 31, 2017.***

Individuals Who Inherit IRAs And Qualified Retirement Plan Accounts May Defer Income By Delaying Distributions. If you are the beneficiary of an IRA or qualified plan account of someone who has died, you should consider the following options for deferring your RMDs (and thus postponing taxable income):

- Planning For IRA Distributions After The Owner's Death. If you are the beneficiary of an IRA or qualified plan account of someone that has died in 2017, there are certain time-sensitive planning techniques you should consider without delay. For example, if the decedent named multiple individual beneficiaries or included an estate or charity as a beneficiary, we may be able to rearrange the IRA beneficiaries for maximum tax deferral. The rules for rearranging IRA beneficiaries after the owner dies are tricky, and acting before certain deadlines pass is critical. ***If the owner died in 2017,*** the best tax results can generally be achieved by making any necessary changes ***no later than December 31, 2017.*** If you need our assistance, we should review your situation as soon as possible.

- Rollovers By Surviving Spouses. If your spouse passed away during 2017 and named you beneficiary of an IRA or qualified plan account, there are certain things you should consider if you want to maximize tax deferral. For example, if your spouse was ***over age 70½*** and died ***during 2017,*** and you are ***over 59½,*** you should consider rolling the deceased spouse's qualified plan or IRA amount into your name (as surviving spouse) ***on or before December 31, 2017.*** If you complete this rollover ***before 2018,*** then: **1)** If you are ***under age 70½***, you will not be required to take any *Required Minimum Distributions* (RMDs) until the tax year you reach age 70½, *or* **2)** If you ***are at least 70½,*** your RMD for 2018 (and for future years) will be determined using the *Uniform Lifetime Distribution Table* that results in a smaller annual required payout. Therefore, ***converting the account into your name*** (as surviving spouse) on or ***before December 31, 2017,*** could substantially reduce the amount of your RMD for 2018 where the decedent was at least 70½.

  Planning Alert! If you (as surviving spouse) are not yet 59½, leaving the IRA or qualified plan account in the name of your deceased spouse may be the best option if you think that you will need to withdraw amounts from the retirement account before you reach age 59½. Otherwise, if your deceased spouse's account is transferred into your name and you take a distribution before reaching age 59½, the distribution could be subject to a 10% early distribution penalty.

- Non-Spouse Beneficiaries Of Decedent's Retirement Plan. Many employer-sponsored retirement plans (e.g., §401(k) plans) require a deceased individual's retirement plan balance to be paid out to a beneficiary no later than 5 years after the individual dies. If you are a non-spouse beneficiary of a deceased individual's plan balance (where the plan requires distributions to the beneficiary under the 5-year rule), you need to take certain time-sensitive steps if you want to take distributions and pay tax over your life expectancy instead of by the Plan's 5-year deadline. The IRS says the plan balance must be transferred (trustee-to-trustee) to an IRA titled in the name of both the deceased individual and you as beneficiary. For example, let's assume the decedent was your father (John Smith), and you are his daughter (Kate Smith). You could direct the plan trustee to make a ***"trustee-to-trustee"*** transfer to an IRA

titled "*Kate Smith As Beneficiary Of John Smith, Deceased.*"

Planning Alert! For this to work, the IRS also says that this ***"trustee-to-trustee"*** transfer must be made ***before the end of the year following the year of the plan participant's death.*** So, if in this example your father ***died in 2016,*** you need to make sure that this *trustee-to-trustee* transfer from your deceased father's retirement plan to the properly-named IRA is made ***no later than the end of 2017.*** If the transfer occurs ***after 2017,*** the IRS says that you would be required to take distributions under the 5-year rule (instead of over your life expectancy). Caution! If you or a family member is in this situation, please call our Firm as soon as possible if you need our assistance.

TAKING ADVANTAGE OF DEDUCTIONS

If new tax legislation is enacted and reduces individual tax rates after 2017 as proposed, individuals would likely be subject to higher tax rates in 2017 than for 2018. Thus, accelerating deductions into 2017 may generate an even greater tax benefit than expected. Planning Alert! The tax reform proposals currently working their way through Congress would, if enacted, eliminate or place new limits on deductions after 2017 (e.g., proposals to eliminate or restrict the deduction for state and local taxes and medical expenses). Therefore, depending on future legislation, paying for a deductible item in 2017, rather than waiting until 2018, could have the added benefit of preserving a deduction that might not otherwise be available in 2018. If you think that you would benefit from accelerating 2018 deductions into 2017, you should consider the following:

"Above-The-Line" Deductions Can Generate Multiple Tax Benefits. So-called ***"above-the-line"*** deductions reduce both your "*adjusted gross income"* (AGI) and your *"modified adjusted gross income*" (MAGI), while ***"itemized"*** deductions (i.e., below-the-line deductions) do ***not*** reduce either AGI or MAGI. Deductions that reduce your AGI (or MAGI) can generate multiple tax benefits by: **1)** Reducing your taxable income and allowing you to be taxed in a lower tax bracket; **2)** Potentially freeing up other deductions (and tax credits) that phase out as your AGI (or MAGI) increases (e.g., itemized deductions, personal exemptions, certain IRA contributions, certain education credits, adoption credit, etc.); **3)** Potentially reducing your MAGI below the income thresholds for the 3.8% Net Investment Income Tax (i.e., 3.8 % NIIT only applies if MAGI exceeds $250,000 if married filing jointly; $200,000 if single); or **4)** Potentially reducing your household income to a level that allows you to qualify for a "refundable" Premium Tax Credit for health insurance purchased on a government Exchange (the Premium Tax Credit is discussed in more detail below).

If you think that you could benefit from accelerating ***"above-the-line"*** deductions into 2017, consider the following:

- Identifying "Above-The-Line" Deductions. ***"Above-the-line"*** deductions include deductions for IRA or Health Savings Account (HSA) contributions, health insurance premiums for self-employed individuals, qualified student loan interest, qualified moving expenses, qualifying alimony payments, and business expenses for a self-employed individual. Tax Tip. Unreimbursed *"employee"* business expenses are classified as *"miscellaneous itemized deductions"* and trigger two potential limitations: **1)** In the aggregate, these deductions are allowed only to the extent ***they exceed 2%*** of your AGI, and **2)** Any excess over the 2% threshold is included in *"itemized deductions"* and is subject to the 3% of AGI subtraction. However, if you arrange for your employer to reimburse you for your *"qualified"* employee business expenses under an ***"accountable reimbursement plan,"*** the reimbursement is excluded from your income (which essentially generates the equivalent of an *"above-the-line"* deduction). **Note!** We can help you establish a qualifying *accountable reimbursement plan* with your employer.

- Accelerating "Above-The-Line" Deductions. As a cash method taxpayer, you can generally accelerate a 2018

deduction into 2017 by *"paying"* it in 2017. *"Payment"* typically occurs in 2017 if a check is delivered to the post office, if your electronic payment is debited to your account, or if an item is charged on a *third-party credit card* (e.g., Visa, MasterCard, Discover, American Express) in 2017. **Caution!** If you post-date the check to 2018 or if your check is rejected, no payment has been made in 2017. **Planning Alert!** The IRS says that prepayments of expenses applicable to periods beyond 12 months after the payments are not deductible in 2017.

- **Deductions For Business Expenses Paid By Partners.** Generally, the IRS allows a partner in a partnership (or owner of an LLC) to take an *"above-the-line"* deduction for business expenses the owner ***pays on behalf*** of the partnership (or LLC) ***only if*** there is an agreement (preferably in writing) between the partner and the partnership providing that those expenses are to be paid by the partner, and that the expenses will not be reimbursed by the partnership. **Tax Tip.** If you are a partner or LLC owner paying *unreimbursed* business expenses on behalf of your partnership or LLC, to be safe, you should have a written agreement in place with the entity stipulating that those expenses are to be paid by you, and that the expenses will not be reimbursed by the partnership or LLC.

Accelerating "Itemized" Deductions Into 2017. As mentioned above, although ***"itemized"*** deductions (i.e., *below-the-line* deductions) do ***not*** reduce your AGI or MAGI, they still may provide valuable tax savings. Many of your *itemized deductions* are reduced in the aggregate once your AGI exceeds certain thresholds (e.g., for 2017 – $313,800 for joint returns; $261,500 if single). ***Itemized deductions*** generally include charitable contributions, state and local income taxes (or, alternatively state and local sales taxes), property taxes, medical expenses, unreimbursed employee travel expenses, home mortgage interest, and gambling losses (to the extent of gambling income). However, if your itemized deductions fail to exceed your *Standard Deduction* in most years, you are not receiving maximum benefit for your itemized deductions. You could possibly reduce your taxes over the long term by bunching the payment of your itemized deductions in alternate tax years. This may produce tax savings by allowing you to itemize deductions in the years when your expenses are bunched, and use the *Standard Deduction* in other years. **Tax Tip.** The easiest deductions to shift from 2018 to 2017 are *charitable contributions*, *state and local taxes*, and your January, 2018 home *mortgage interest payment*. For 2017, the standard deduction is $12,700 on a joint return and $6,350 for single individuals. If you are blind or age 65, you get an additional standard deduction of $1,250 if you're married ($1,550 if single).

- **Pending Tax Reform Proposals Could Enhance The Benefits Of Accelerating Itemized Deductions Into 2017!** As previously discussed, current tax reform proposals call for a significant increase in the *"Standard Deduction."* If this larger standard deduction is enacted and is effective in 2018, individuals who would itemize deductions for 2018 under current law, instead, may use the standard deduction for 2018. This would result in a loss of any benefit for items qualifying as an itemized deduction under current law that are paid in 2018. Therefore, if the increased standard deduction is enacted and is effective for 2018, these individuals could benefit by paying expenses qualifying as an itemized deduction before the end of 2017. Moreover, since the tax reform proposals would, if enacted, eliminate or place new limits on current itemized deductions (e.g., eliminate or restrict the deduction for state and local taxes and medical expenses), accelerating those deductions into 2017 could also have the benefit of preserving a deduction that might otherwise be lost in 2018.

"Bunching" Medical Expenses. Generally, you are allowed an *itemized deduction* for un-reimbursed medical expenses (including un-reimbursed health insurance premiums) only to the extent your total medical expenses for the year exceed ***10%*** of your adjusted gross income (AGI). Therefore, consider accelerating as many elective medical expenses (i.e., braces, new eye glasses, etc.) into 2017 as possible, if this will result in your medical expenses for 2017 exceeding the *10% threshold* or if you are already over the 10% threshold. **Planning Alert!** The 7.5% threshold that previously

applied to those who were 65 or older ***expired after 2016!***

- Qualified Long-Term Care Services. Generally, deductible medical expenses include the cost of maintenance or personal care services prescribed by a *"licensed health care practitioner"* for a *"chronically ill"* individual. However, you must meet certain requirements before you may deduct these types of expenses as medical deductions.

- IRS Medical Mileage Rate. For 2017, the standard IRS medical deduction mileage rate for use of your vehicle for essential medical care purposes is ***17 cents per mile.***

- Qualified Long-Term Care Insurance Premiums. Generally, qualified long-term care insurance premiums are treated as medical expenses – subject to dollar caps based on your age (which are adjusted annually for inflation). ***For 2017,*** the ***maximum amount*** you can deduct for these premiums is: if you are age 40 or less - $410; age 41 to 50 - $770; age 51 to 60 - $1,530; age 61 to 70 – $4,090; and over age 70 - $5,110. Tax Tip. These dollar caps are per individual, not per return. So, for example, if you and your spouse are both age 65 and you each have a qualified long-term care policy, you could each deduct up to $4,090 of your respective premiums for 2017. Also, if you are a self-employed taxpayer, you are generally allowed an *"above-the-line"* deduction (discussed earlier) for the premiums up to the dollar caps.

Don't Miss Use-It-Or-Lose-It Deadline For Flex Plans. If you participate in a cafeteria or flexible savings account plan (flex plans), you can generally elect to make a pre-tax salary reduction contribution to the plan. You can then access that account to reimburse yourself tax-free for qualified expenditures (e.g., medical expenses, dependent care assistance, adoption assistance). For most *calendar-year* plans, you must clean out your 2017 account by March 15, 2018, or forfeit any funds that aren't used for qualifying expenses.

Qualified Home Office Can Generate Valuable Tax Benefits. Qualifying for home office deductions (e.g., depreciation, insurance, utilities, repairs and maintenance) often takes careful planning. To qualify, your home office must be used ***"regularly and exclusively"*** as your ***"principal place of business."*** For example, your home office will generally be deemed your ***principal place of business*** if you use the office to perform ***management or administrative duties*** for your business ***and*** there is ***no other fixed location*** where you perform substantial management or administrative duties for that business. If you are an *"employee"* (as opposed to being self-employed), in addition to meeting these requirements, you must also establish that your home office is ***"for the convenience of your employer"*** (this generally means that, at a minimum, you're not provided an office at work).

- Tax Tip. The IRS says that if you have a qualifying home office, you can deduct the costs of traveling from your home office to another work location as a business expense. So, by having a qualified home office, you will generally have more deductible business travel expenses. Note! The ***"business standard mileage"*** rate for 2017 is ***53.5 cents*** per mile. Furthermore, if you're an employee who qualifies for home office deductions, you should ask your employer to reimburse your properly documented home office expenses. This reimbursement is ***excluded from your income*** if reimbursed under an ***"accountable reimbursement plan."***

Planning Opportunities For Charitable Contributions. The following are tax planning techniques for charitable giving that are commonly used to reduce your taxable income:

- If You Are At Least Age 70½ – Consider Having Your IRA Trustee Make Charitable Contributions Directly From Your IRA To A Charity. As previously discussed in this letter, don't forget to consider having your IRA trustee make

contributions to a qualifying charity if you are at least age 70½.

- “Pay” Your Charitable Contribution In 2017. A charitable contribution deduction is allowed for 2017 if the check is *mailed* ***on or before December 31, 2017,*** or the contribution is made by a credit card charge in 2017. However, if you merely give a note or a pledge to a charity, no deduction is allowed until you pay the note or pledge.

- Contributions Of Appreciated Property. If you are considering a significant 2017 contribution to a qualified charity (e.g., church, synagogue, or college), it will generally save you taxes if you contribute *appreciated* long-term capital gain property, rather than selling the property and contributing the cash proceeds to the charity. By contributing capital gain property held more than one year (e.g., appreciated stock, real estate, etc.), a deduction is generally allowed for the full value of the property, but no tax is due on the appreciation. Caution! Your current year deduction for appreciated capital gain property is generally limited to 30% of your AGI, with a 5-year carryover of the excess. Tax Tip. If you want to continue to hold an investment position in stock that you contribute to charity, consider purchasing stock that is the same or similar to the appreciated stock you contributed. That way, you will have a higher *“tax”* basis in the replacement stock, without having to recognize the gain on the stock contributed to charity. Caution! If you plan to contribute appreciated realty or stock for 2017, make sure that you begin the paperwork for the transfer early enough so that all documentation is completed by ***December 31, 2017.***

  Planning Alert! If you intend to use *“loss”* stocks to fund a charitable contribution, you should sell the stock first and then contribute the cash proceeds. This will allow you to deduct the capital loss from the sale, while preserving your charitable contribution deduction. If you contribute the loss stock directly to the charity, although you will get a charitable deduction equal to the value of the contributed stock, you will ***lose the capital loss*** deduction. Caution! Be sure to satisfy the rigid documentation requirements discussed in the next segment. For example, contributions of property other than publically traded securities, generally require a *“qualified appraisal”* if the property is valued at more than $5,000.

Be Careful – IRS And The Courts Are Rigidly Enforcing The Documentation Requirements For Charitable Contributions!
The IRS regulations provide that you may not take a deduction for a charitable contribution unless you strictly comply with the rigid documentation requirements imposed by the Internal Revenue Code. Over the last several years (including 2017), there has been a series of Court cases disallowing an entire charitable contribution deduction because the taxpayer failed to satisfy one or more of the following documentation requirements:

- Contributions Made In Cash. In order to deduct a *“cash”* contribution to a charity, you must have a receipt, letter, or other written communication from the charity (showing the name of the charity, the date and the amount of the contribution). Planning Alert! If your cash contribution is $250 or more, you ***must also satisfy*** the ***“Mandatory Documentation Requirements For Contributions Of $250 Or More,”*** discussed below.

- Contributions Made By Check, Debit Card, Or Charge Card. If you make a contribution by check, you are required to have either a receipt described above for ***“Contributions Made In Cash,”*** a copy of the cancelled check, or some other bank record (e.g., a bank statement). If your contribution is by debit card or by charge card, you are required to have either a receipt as described above for ***“Contributions Made In Cash,”*** or a bank record (e.g., a bank statement, credit card statement, etc.). Planning Alert! If your contribution is $250 or more, you ***must also satisfy*** the ***“Mandatory Documentation Requirements For Contributions Of $250 Or More,”*** discussed below.

- Mandatory Documentation Requirements For Contributions Of $250 Or More. If you contribute ***$250 or more*** (whether by cash, check, charge card, or property) to a charity, you are allowed a deduction ***only if*** you receive a ***"qualifying written receipt"*** from the charity by the time you file your return ***and*** the return is timely filed. The ***qualifying written receipt*** must contain the following information: **1)** The amount of cash and a description (but not value) of any property other than cash you contributed to the charity, **2)** A statement as to whether the charity provided you with any goods or services in return for your contribution, and **3)** A description and good faith estimate of the value of any goods or services, if any, the charity provided to you (or, if applicable, a statement that the goods and services consisted solely of intangible religious benefits). Caution! A cancelled check by ***itself does not satisfy*** this documentation requirement!

  In addition, for all noncash contributions, the receipt must contain the date of the charitable contribution, the location of the contribution, and a description of the property contributed. Planning Alert! The IRS has been particularly aggressive in coming after taxpayers who the IRS believes have failed any part of the technical requirements for documenting *"contributions of $250 or more."* The IRS has denied deductions for many taxpayers who failed to comply with these charitable contribution documentation (i.e., receipt) rules and generally has a winning record on this issue in Court.

- Property Contributions Of More Than $500. If you contribute non-cash property of a similar type ***valued over $500***, you must not only ***satisfy*** the ***"Mandatory Documentation Requirements For Contributions Of $250 Or More,"*** discussed previously, but you must also maintain and report with your return certain additional information including the date you acquired the property, your basis in the property, your valuation method, etc. Planning Alert! If you are claiming a deduction of ***more than $500*** for a ***vehicle, a boat, or an airplane*** that you contributed to charity, the law also requires that you obtain a *Form 1098-C from the charity* to deduct your contribution.

- Property Contributions Of More Than $5,000. You must obtain a ***qualified appraisal*** for contributions of property ***valued in excess of $5,000,*** unless the property is: **1)** Securities for which market quotations are readily available, or **2)** Non-publicly traded stock valued at $10,000 or less. Furthermore, you must also ***satisfy*** the ***"Mandatory Documentation Requirements For Contributions Of $250 Or More,"*** discussed previously.

- Contributions Of Clothing And Household Items. Even if you meet the previously-discussed documentation requirements, you are not allowed a deduction for charitable contributions of ***clothing or household items*** unless the items are in ***"good used condition or better."*** Tax Tip. You should consider contributing your clothing and household items to charities that have a policy of accepting only items that are in good condition.

Maximizing Your Home Mortgage Interest Deduction. If you are looking to maximize your 2017 itemized deductions, you can increase your home mortgage interest deduction by paying your January, 2018 payment ***on or before December 31, 2017***. Typically, the January mortgage payment includes interest that was accrued in December and, therefore, is deductible if paid in December. Planning Alert! Make sure that you send in your January, 2018 mortgage payment early enough in December for your lender to actually receive it before year-end. That way, your lender should reflect that last payment on your 2017 Form 1098, and we can avoid a matching problem on your 2017 return. Here are some other planning strategies for the interest deduction you should consider:

- Look For Deductible "Points." Points paid in connection with the purchase or improvement of your ***principal residence*** are immediately deductible. Points are deductible even if the bank labels them as something else. For example, points include "*loan-processing fees*," "*loan premium charges*," or *"loan origination fees*" so long as they don't represent fees for services, etc. (e.g., appraisal, title, inspection, attorneys' fees, credit checks, property taxes,

or mortgage insurance premiums).

- Remember To Deduct Seller-Paid Points. If you bought a house this year and negotiated for the seller to pay your points at closing, the IRS says you can deduct those seller-paid points as though you paid them yourself.

- Pay Off Personal Loans First. If you have both home mortgage loans and other personal debt, from a tax standpoint it is generally better to pay off the personal debt first because interest on personal debt is generally not deductible but home mortgage interest is generally deductible. This will maximize your interest deduction.

Pay Careful Attention To The Payment Of Your State And Local Income Taxes. If you anticipate deducting your state and local income taxes, consider paying them (fourth quarter estimate and balance due for 2017) and any property taxes for 2017 ***prior to January 1, 2018*** if your tax rate for 2017 is higher than or the same as your projected 2018 tax rate. This will provide a deduction for 2017 (a year early) and possibly against income taxed at a higher rate. Planning Alert! Current tax reform proposals include the possibility of eliminating or limiting the itemized deduction for state and local taxes. Moreover, under current rules, state and local income and property taxes are not deductible for AMT purposes. Therefore, if you are subject to AMT for 2017, you will generally receive no benefit for these deductions. Caution! ***Please consult us before you overpay state or local income taxes!***

- Option To Deduct Sales Taxes. Individuals may *"elect"* to deduct *"either"* state and local ***income*** taxes or state and local ***sales*** taxes, as itemized deductions for 2017.

PENDING TAX PROPOSALS THAT COULD IMPACT PLANNING FOR AMT

As mentioned above, certain itemized deductions are not allowed in computing your *"Alternative Minimum Tax"* (AMT), such as state and local taxes (including state income taxes) and unreimbursed employee business expenses. Congress is currently considering tax reform proposals that, if enacted, could eliminate the *"Alternative Minimum Tax"* (AMT) after 2017. Consequently, if the repeal of AMT is enacted and becomes effective in 2018, and the current deductions that are not allowed to reduce AMT in 2017 remain deductible for regular tax purposes in 2018, it could be to your advantage to delay payment of these items until 2018.

DON'T OVERLOOK "AFFORDABLE CARE ACT" TAX CONSIDERATIONS

There have been repeated proposals in Congress to *"repeal and replace"* key provisions of the "*Affordable Care Act"* (ACA). But, as we complete this letter, none of this legislation has passed. Consequently, the following two provisions in ACA having the most significant impact on individuals are still in effect: **1)** The **"*Shared Responsibility Tax"*** or ***SR Tax*** imposed on individuals without adequate health care coverage who do not qualify for an exemption, and **2)** The ***"Premium Tax Credit"*** or ***PTC*** for qualifying individuals purchasing health insurance on the Federal or state *"Exchanges."* Caution! On October 12, 2017, President Trump issued an *Executive Order* directing the Secretaries of Treasury, Labor, and Health and Human Services to begin the process of developing regulations and other guidance to "*Promote Healthcare Choice and Competition."* It is possible down the road that guidance will be issued that could modify or minimize potential penalties currently imposed on individuals who don't comply with ACA. However, as we finalize this letter, no such relief has been published. Please contact our firm if you would like a status report on this *Executive Order*.

The "Shared Responsibility Tax." Under the current ACA rules, the ***"Shared Responsibility Tax"*** (***SR Tax***) continues to

apply for those individuals who do not have qualified health care coverage for 2017, and do not qualify for an exemption. For those without health care coverage for all of 2017 (assuming no exemption applies), the ***SR Tax*** is generally the ***greater of:*** 1) 2½% of household income (in excess of the filing threshold), or 2) $695 per adult ($347.50 per child under age 18) limited to a household maximum of $2,085. Also, the *SR Tax* may not exceed the cost of the national average for a bronze level health plan available through the government health insurance exchanges. ***For example,*** assume a single individual (under age 65): 1) Was uninsured for the ***entire 2017 year*** and does not qualify for an *"exemption,"* and 2) Earned ***$70,400*** (which is also the person's "*household income*"). For this individual, the ***SR Tax*** for ***2017*** would be ***$1,500***. ***Please note*** that the *SR Tax* is prorated on a monthly basis for individuals without coverage for only part of 2017. Caution! Spouses filing a joint return are jointly liable for any *SR Tax* on the return, including any *SR Tax* due for qualifying dependents.

- Planning Alert! Individuals generally must pay an ***SR Tax*** if the individual or the individual's dependents are not covered by a ***"Qualified Health Plan"*** (i.e, a health plan or insurance policy providing "minimum essential coverage") for any month during 2017. To avoid the *SR Tax*, an individual (and anyone the individual ***may claim*** as a dependent) generally must either: 1) Be covered under a ***"qualified health plan,"*** or 2) Qualify for a specific ***"exemption"*** from the tax. Planning Alert! The IRS says that an individual cannot avoid the *SR Tax* for someone who he or she may claim as a dependent, simply by failing to claim that person as a dependent on the individual's tax return.

- Qualifying Exemption. If you or your dependent does not have qualifying health care coverage, you may qualify for an exemption, such as: You lived abroad and met certain conditions; You failed to have *"qualified health plan coverage"* for less than 3 months during 2017; Your income is below the threshold for filing an income tax return; or, You qualify for a ***"hardship exemption."*** Planning Alert! If you think you or your dependent may need a *"hardship exemption"* in 2017, you will generally need to apply for an "*exemption certificate.*" This certificate is obtained by submitting a hardship application form to: Health Insurance Marketplace – Exemption Processing, 465 Industrial Blvd., London, KY 40741. The application form may be obtained by searching ***"Application for Exemption from the Shared Responsibility Payment for Individuals who Experience Hardships"*** in *Google*. This *Exemption Form* also explains 14 different types of *qualifying hardships* that you or a family member may have experienced during 2017. Tax Tip. If you think you or anyone in your household may qualify for a hardship exemption, we suggest you begin the application process as soon as possible. If your application is approved, be sure to provide us with your exemption certificate. Please call us if you need additional information.

The "Premium Tax Credit." *ACA* provides for a tax credit (the ***"Premium Tax Credit"*** or ***"PTC")*** for eligible low-and-middle income individuals who purchase individual or family health insurance through the State or Federal Exchanges. The *PTC* is *"refundable."* However, unlike the classic refundable credit which is paid directly to the taxpayer, the *PTC* is generally paid ***in advance directly to the insurer*** (*"Advance Payments"*). Observation! It has been reported that a large majority of individuals who purchased health insurance during 2017 from the *Exchange* were awarded *Advanced Payments* of the PTC.

- Who Qualifies For The "Premium Tax Credit" (PTC)? An individual *generally* qualifies for the *PTC* ***for 2017*** only if the individual's *"Household Income"* for ***2017*** is ***at least 100%*** and ***not more than 400%*** of the applicable Federal Poverty Line (FPL) for the individual's family size. ***For example,*** a ***family of four*** could qualify for at least some *PTC* with *"2017" Household Income* ***of up to $97,200.***

- Certain Individuals May Be Required To Pay Back Some Or All Of Their "Advance Payments." Any individual who

received *Advance Payments* for 2017***is required to file*** a ***2017 income tax return*** to reconcile: **1)** The amount of the ***"actual"*** PTC (based on the individual's ***"actual"*** *2017 Household Income*) with **2)** The ***Advance Payments*** of the *PTC* (which were determined by the Exchange based on the individual's ***"projected"*** *2017 Household Income*). If an individual's *Advance Payments* for 2017 exceed the *"actual" PTC*, the ***excess must be paid back*** on the ***2017 tax return*** as an ***"additional tax liability*."** Caution! Two recent Tax Court cases have held that this excess must be paid back as an *additional tax liability* even where the taxpayers made a good faith effort to comply with requirements for *Advance Payments* of the *PTC.*

Possible Cap On The Amount That Must Be Paid Back! The amount of the *2017 excess payment* that must be repaid as an *additional tax liability* ***is capped if*** the individual's actual *2017 Household Income* is ***less than 400%*** of the Federal Poverty Line (FPL) for the individual's family size. For example, for 2017, as long as an individual's actual household income is ***less than 400% of the FPL,*** the maximum amount that must be repaid will not exceed ***$1,275 for a single individual*** and ***$2,550 for others*.** Practice Pointer! In some cases, an individual whose *2017 Household Income* is projected to be *400% or more of the FPL* may be able to trigger these dollar caps by reducing his or her *2017 Household Income* **below** *400% of the FPL.* ***For example,*** an individual might make a contribution to an IRA (if eligible to do so) in order to reduce his or her *2017 Household Income* to less than 400% of the *2017 FPL* for the individual's family size. Taking this step would cap the amount of the individual's *excess payments* required to be paid back as an *additional tax liability* to ***$1,275 for single individuals*** and ***$2,550 for others*.** Tax Tip! If you think that you may have to pay back some or all of your 2017 *excess payments,* please call our Firm as soon as possible so we can determine whether you can take steps ***before the end of 2017*** to minimize the amount of the pay back.

- Keep An Eye Out For IRS Form 1095-A. Any individual who purchased health insurance for 2017 through the Exchange should receive a ***Form 1095-A*** (*"Health Insurance Marketplace Statement"*) by January 31, 2018. Information on this Form will be used to complete ***Form 8962*** ("Premium Tax Credit") which reconciles an individual's *Advanced Payments* of the PTC with the *"actual"* PTC*,* as discussed above. If you, your spouse, or a dependent purchased health insurance through the Marketplace during 2017, ***please bring us a copy of Form 1095-A along with your other tax information*** when we prepare your 2017 tax return.

TAX PLANNING FOR INVESTMENT INCOME (INCLUDING CAPITAL GAINS AND THE 3.8% NIIT)

Planning With The 3.8% Net Investment Income Tax (3.8% NIIT). The ***Affordable Care Act*** (*ACA*) provides for a ***3.8% Net Investment Income Tax (3.8% NIIT)*** on the *net investment income* of higher-income individuals. This tax applies to individuals with modified adjusted gross income (MAGI) exceeding the following ***"thresholds"*: *$250,000*** for ***married filing jointly; $200,000*** if ***single;*** and ***$125,000*** if ***married filing separately.*** The 3.8% NIIT is imposed upon ***the** **lesser of*** an individual's: **1)** Modified adjusted gross income (MAGI) in excess of the ***threshold,*** or **2)** Net investment income. ***Trusts and estates*** are also subject to the ***3.8% NIIT*** on the ***lesser of*:** **1)** The adjusted gross income of the trust or estate in excess of $12,500 (for 2017), or **2)** The undistributed net investment income of the trust or estate.

The 3.8% NIIT not only applies to traditional types of investment income (i.e., interest, dividends, annuities, royalties, and capital gains), it also applies to "business" income that is taxed to a "passive" owner (as discussed in more detail

below) unless the "passive" income is subject to S/E taxes. If you believe that the 3.8% NIIT may apply to you, consider the following planning techniques:

- Shifting To Investments That Generate Income Exempt From The 3.8% NIIT. Fortunately, the following types of income are ***not subject*** to the *3.8% NIIT*: ***tax-exempt bond interest;*** gain on the sale of a principal residence *otherwise excluded* from income under the ***home-sale exclusion*** rules (i.e., up to $250,000 on a single return, up to $500,000 on a joint return); and ***distributions from qualified retirement plans*** (e.g., 401(k) plans, IRAs, §403(b) annuities, etc.). Tax Tip. Investments that generate tax-exempt income (e.g., tax exempt municipal bonds) potentially provide higher-income individuals with a double benefit: **1)** The interest will not be included in the individual's MAGI, thus reducing the chance that the individual will exceed the income thresholds for the 3.8% NIIT, and **2)** The tax-exempt interest itself is exempt from the 3.8% NIIT as well as from Federal income taxes. Planning Alert! Although taxable distributions from qualified retirement plans (e.g., IRAs, 401(k) plans, etc.) are exempt from the 3.8% NIIT, the taxable distributions will increase your *"modified adjusted gross income"* (MAGI). Therefore, to the extent the taxable distributions cause your MAGI to exceed the thresholds for the 3.8% NIIT (e.g., $250,000 for joint returns; $200,000 for singles), the distributions could cause your other "net investment income" (e.g., dividends, interest, capital gains, rents, passive income) to be hit with the 3.8% NIIT.

- Roth IRAs (Including Roth IRA Conversions). Tax-free distributions from a Roth IRA are exempt from the 3.8% NIIT, and do not increase your MAGI (and, thus will not increase your exposure to the 3.8% tax). Therefore, these tax-favored features should be factored into any analysis of whether you should contribute to a Roth IRA. However, if you are considering converting a traditional IRA into a Roth, the income triggered in the year of conversion would increase your MAGI and, therefore, may increase your exposure to the 3.8% NIIT on your *net investment income* (e.g., dividends, interest, capital gains). Planning Alert! If you want a Roth conversion to be ***effective for 2017,*** you must transfer the amount from the regular IRA to the Roth IRA ***no later than December 31, 2017*** (you do not have until the due date of your 2017 tax return). Caution! Whether you should convert your traditional IRA to a Roth IRA can be an exceedingly complicated issue, and the 3.8% NIIT is just one of many factors that you should consider. ***Please call our firm*** if you need help in deciding whether to convert to a Roth IRA.

- "Tax-Deferred" Investments. The 3.8% NIIT does not apply to earnings generated by a ***tax-deferred annuity*** (TDA) contract ***until the income is distributed.*** Thus, after first considering the economics, investing in a TDA in your higher-income years may allow you to defer the annuity income until later years when your MAGI is below the 3.8% NIIT thresholds.

- "Passive" Income. *"Net Investment Income"* for purposes of the 3.8% NIIT generally includes net income from a business activity if you are a *"passive"* owner (unless the income constitutes *self-employment* income that is subject to the 2.9% Medicare tax). You will generally be deemed a *"passive"* owner if you do not *"materially participate"* in the business as determined under the traditional *"passive activity loss"* rules. For example, under the *passive activity loss* rules, you may be a *"passive"* owner unless you spend more than 500 hours working in the business during the year or meet one of the other "material participation" tests. Furthermore, *rental income* is generally deemed to be "passive" income under the *passive activity loss* rules, regardless of how many hours you work in the rental activity. Tax Tip. In certain situations, real estate rentals may not be treated as "passive" income and could also be exempt from the 3.8% NIIT. For example, if you are a "qualified real estate professional," or you lease property to a business in which you "materially participate," the rental income may be exempt from the 3.8% NIIT. If you believe you may qualify for one of these rental real estate exemptions, or you otherwise believe you may have "passive" income from non-rental business activities, please contact our firm. We will gladly evaluate your situation to determine

whether there are steps you could take before the end of 2017 to avoid "passive" income classification, and thus, reduce your exposure to the 3.8% NIIT.

Traditional Year-End Planning With Capital Gains And Losses. Generally, net capital gains (both short- term and long-term) are potentially subject to the 3.8% NIIT. This could result in an individual who is otherwise taxed at 39.6% on ordinary income paying tax on his or her ***net long-term capital gains*** at a ***23.8%*** rate (i.e., the maximum capital gains tax rate of 20% plus the 3.8% NIIT). In addition, this individual's ***net short-term capital gains*** could be taxed as high as ***43.4%*** (i.e., 39.6% plus 3.8%). Consequently, traditional planning strategies involving the timing of your year-end sales of stocks, bonds, or other securities are more important than ever. The following are time-tested, year-end tax planning ideas for sales of capital assets. Planning Alert! Always consider the ***economics of a sale or exchange first!***

- Planning With Zero Percent Tax Rate For Capital Gains And Dividends. Long-term capital gains and qualified dividends that would be taxed (if ordinary income) in the 15% or lower ordinary income tax bracket, are taxed at a zero percent rate. For 2017, taxable income up to $75,900 for joint returns ($37,950 if single) is taxed at the 15% rate, or below. Tax Tip. Taxpayers who have historically been in higher tax brackets but now find themselves between jobs, recently retired, or expecting to report higher-than-normal business deductions in 2017, may temporarily have income low enough to take advantage of the zero percent rate for 2017. If you are experiencing any of these situations, please call our firm and we will help you determine whether you can take advantage of this zero percent tax rate for long-term capital gains and qualified dividends.

- Lower-Income Retirees. The zero percent rate for long-term capital gains and qualified dividends is particularly important to lower-income retirees who rely largely on investment portfolios that generate dividends and long-term capital gains. Furthermore, gifts of appreciated securities to lower-income individuals who then sell the securities could reduce the tax on all or part of the gain from as high as 23.8% to as low as zero percent. Caution! If the lower-income individual is subject to the so-called *kiddie tax*, this planning technique will generally not work.

- Timing Your Capital Gains And Losses. If the value of some of your investments is less than your cost, it may be a good time to harvest some capital losses. For example, if you have already recognized capital gains in 2017, you should consider selling securities ***prior to January 1, 2018*** that would trigger a capital loss. These losses will be deductible on your 2017 return to the extent of your recognized capital gains, plus $3,000. Tax Tip. These losses may have the added benefit of reducing your income to a level that will qualify you for other tax breaks, such as the: $2,500 American Opportunity Tax Credit, $1,000 Child Credit, $13,570 Adoption Credit, etc. Planning Alert! If, within 30 days before or after the sale of loss securities, you acquire the same securities, the loss will not be allowed currently because of the "wash sale" rules (although the disallowed loss will increase the basis of the acquired stock). Tax Tip. If you are afraid of missing an upswing in the market during this 60-day period, consider buying shares of a different company in the same sector. Also, there is *no* wash sale rule for *gains*. Thus, if you decide to sell stock at a gain in order to take advantage of a zero capital gains rate, or to absorb capital losses, you may acquire the same securities within 30 days without impacting the recognition of the gain.

- Planning With Capital Loss Carryforwards. If you have substantial capital loss carry forwards coming into 2017, and your stock sales to date have created a *net* capital loss exceeding $3,000, consider selling enough appreciated securities ***before the end of 2017*** to decrease your net capital loss to $3,000. Stocks that you think have reached their peak would be good candidates. All else being equal, you should sell the short-term gain (held 12 months or less) securities first. This will allow your *net* capital loss (in excess of $3,000) to offset your short-term capital gain, while preserving favorable long-term capital gain treatment for later years. Planning Alert! Your *net* short-term

capital gains can be used to free up a deduction for any "investment interest" you have incurred (e.g., interest you have paid on your margin account). If you eliminate your short-term capital gains by recognizing your short-term capital losses, you may be restricting your ability to deduct your investment interest. Tax Tip. If you are considering selling "loss" investments held 12 months or less, and you also have short-term capital gains and investment interest expense, please call our office. We will help you determine a strategy that will maximize your tax savings.

OTHER MISCELLANEOUS PLANNING CONSIDERATIONS

Consider Contributing The Maximum Amount To Your IRA. As your income rises and your marginal tax rate increases, deductible IRA contributions generally become more valuable. Also, making your deductible contribution to the plan as early as possible generally increases your retirement benefits. As you evaluate how much you should contribute to your IRA, consider the following limitations. If you are married, even if your spouse has no earnings, you can generally deduct in the aggregate up to $11,000 ($13,000 if you are both at least age 50 by the end of the year) for contributions to your and your spouse's traditional IRAs. You and your spouse must have *combined earned income* at least equal to the total contributions. However, no more than $5,500 ($6,500 if at least age 50) may be contributed to either your IRA account or your spouse's IRA account for 2017. If you are an active participant in your employer's retirement plan during 2017, your IRA deduction is reduced ratably as your adjusted gross income increases from **$99,000 to $119,000** on a joint return (**$62,000 to $72,000** on a single return). However, if you file a joint return with your spouse and your spouse is an active participant in his or her employer's plan and you are not an active participant in a plan, your IRA deduction is reduced as the adjusted gross income on your joint return goes from **$186,000 to $196,000.** Caution! Every dollar you contribute to a deductible IRA reduces your allowable contribution to a nondeductible Roth IRA. For 2017, your ability to contribute to a Roth IRA is phased out ratably as your adjusted gross income increases from **$186,000 to $196,000** on a joint return or from **$118,000 to $133,000** if you are single. Planning Alert! Unlike the rule for traditional IRA contributions, the amount you may contribute to a Roth IRA is reduced if your adjusted gross income falls within these phase-out ranges regardless of whether you or your spouse is a participant in another retirement plan. In addition, contributions to a Roth IRA are not deductible.

- Workers At Least Age 70½. If you are age 70½ or older, you ***cannot*** make a contribution to a traditional IRA for yourself. Tax Tip. If you are working, age 70½ or older, have a spouse under age 70½, and otherwise qualify, you can make a deductible IRA contribution to a separate traditional IRA for your spouse (not to exceed your compensation) even where the spouse has no earned income. Also, if you otherwise qualify, you can contribute to a nondeductible Roth IRA even after you reach age 70½ as long as you have sufficient earned income.

Consider Increasing Withholding If Facing An Estimated Tax Underpayment Penalty. If you have failed to pay sufficient estimated taxes during 2017 potentially causing an estimated tax underpayment penalty, ***increasing your withholdings before the end of 2017*** may solve the problem. Any income tax withholding (including withholdings at the end of 2017 from a year-end bonus or an IRA distribution) is generally deemed paid 1/4 on April 15, 2017; June 15, 2017; September 15, 2017; and January 15, 2018. Therefore, amounts ***withheld on or before December 31, 2017*** may reduce or eliminate your penalty for underpaying estimated taxes. Tax Tip. If you are a higher-income individual with ***investment income*** that will trigger the ***3.8% NIIT*** for 2017, the additional NIIT could subject you to the underpayment penalty if you haven't adjusted your estimated tax payments or withholdings to cover the 3.8% NIIT and you do not otherwise meet one of the exceptions to the penalty (i.e., paying in 110% of last year's tax). Increasing your withholdings on or before December 31, 2017 could eliminate the penalty.

- Planning Alert! If you take an IRA distribution and have taxes withheld from the distribution to avoid an

underestimate penalty, you must roll the distribution (unreduced by the withheld taxes) into an IRA within 60 days of the distribution to avoid paying taxes (and possibly a 10% penalty) on the IRA distribution. You are allowed to take a distribution from an IRA and roll it over into a new IRA, ***only one time every 12 months*** (beginning with the date you received the distribution). Caution! If you used this withholding technique last year by having taxes withheld from an IRA distribution in 2016, ***be very careful*** that you do not violate the ***one-rollover-per-year*** rule if you plan to use this technique again this year. Please call our firm before you initiate an IRA distribution in order to increase your tax withholdings.

FINAL COMMENTS

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our firm closely monitors these changes. In addition, please call us before implementing any planning ideas discussed in this letter, or if you need additional information. **Note!** The information contained in this material should not be relied upon without an independent, professional analysis of how any of the items discussed may apply to a specific situation.

Disclaimer: Any tax advice contained in the body of this material was not intended or written to be used, and cannot be used, by the recipient for the purpose of promoting, marketing, or recommending to another party any transaction or matter addressed herein. The preceding information is intended as a general discussion of the subject addressed and is not intended as a formal tax opinion. The recipient should not rely on any information contained herein without performing his or her own research verifying the conclusions reached. The conclusions reached should not be relied upon without an independent, professional analysis of the facts and law applicable to the situation.