Year-End Tax Planning Strategies For Individuals

As the end of the year approaches, now is the time to think about actions you can take to help lower your income taxes for 2017, and possibly even 2018 given the potential impact of the proposed tax reform that is currently before Congress. While not all of these scenarios may be applicable, you or your business can likely benefit from many of them. **We encourage you to contact us at your earliest convenience so we can help develop a customized strategy that best meets your needs.**

- **Postpone income until 2018 and accelerate deductions into 2017 to lower your tax bill.** This strategy may be especially valuable if Congress succeeds in lowering tax rates next year in exchange for slimmed-down deductions. Regardless of what happens in Congress, this strategy could enable you to claim larger deductions, credits, and other tax breaks for 2017 that are phased out over varying levels of adjusted gross income (AGI). These include child tax credits, higher education tax credits, and deductions for student loan interest. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may be beneficial to accelerate income into 2017 if you expect to have a more favorable filing status in 2017 vs. 2018.

- If you believe a Roth IRA is better than a traditional IRA, **consider converting traditional-IRA money invested in beaten-down stocks (or mutual funds) into a Roth IRA** if eligible to do so. Keep in mind, however, that such a conversion will increase your AGI for 2017.

- **If you converted assets in a traditional IRA to a Roth IRA earlier in the year and the assets in the Roth IRA account declined in value,** you could wind up paying a higher tax than is necessary if you leave things as is. You can back out of the transaction by recharacterizing the conversion–that is, by transferring the converted amount (plus earnings, or minus losses) from the Roth IRA back to a traditional IRA via a trustee-to-trustee transfer. You can later reconvert to a Roth IRA.

- It may be advantageous to try to **arrange with your employer to defer a bonus that may be coming your way until early 2018.** This could cut as well as defer your tax if Congress reduces tax rates beginning in 2018.

- **Consider using a credit card to pay deductible expenses before the end of the year.** Doing so will increase your 2017 deductions even if you don't pay your credit card bill until 2018.

- continued on next page -

Year-End Tax Planning Strategies For Individuals

- **Higher-income earners must be wary of the 3.8% surtax on certain unearned income.** The surtax is 3.8% of the lesser of: (1) net investment income (NII), or (2) the excess of modified adjusted gross income (MAGI) over a threshold amount ($250,000 for joint filers or surviving spouses, $125,000 for a married individual filing a separate return, and $200,000 in any other case). A taxpayer's approach to minimizing or eliminating the 3.8% surtax will depend on his estimated MAGI and NII for the year and *should be discussed with your tax advisor*.

- **The 0.9% additional Medicare tax also may require higher-income earners to take action.** It applies to individuals for whom the sum of their wages received with respect to employment and their self-employment income is in excess of an unindexed threshold amount (same as above). Employers must withhold the additional Medicare tax from wages in excess of $200,000 regardless of filing status or other income. Self-employed persons must take it into account in figuring estimated tax. There could be situations where an employee may need to have more withheld toward the end of the year to cover the tax.

- **Realize losses on stock while substantially preserving your investment position.** There are several ways this can be done. For example, you can sell the original holding, then buy back the same securities at least 31 days later. *We encourage you to meet with your tax advisor to discuss year-end trades you should consider making*.

- **If you expect to owe state and local income taxes next year, consider asking your employer to increase withholding of state and local taxes** before year-end to pull the deduction of those taxes into 2017 if you won't be subject to **alternative minimum tax (AMT)** in 2017. Pulling state and local tax deductions into 2017 would be especially beneficial if Congress eliminates such deductions beginning next year.

- **Take an eligible rollover distribution from a qualified retirement plan before the end of 2017 if you are facing a penalty for underpayment of estimated tax** and having your employer increase your withholding is unavailable or won't sufficiently address the problem. Income tax will be withheld from the distribution and will be applied toward the taxes owed for 2017. You can then timely roll over the gross amount of the distribution, i.e., the net amount you received plus the amount of withheld tax, to a traditional IRA. No part of the distribution will be includible in income for 2017, but the withheld tax will be applied pro rata over the full 2017 tax year to reduce previous underpayments of estimated tax.

- continued on next page -

Year-End Tax Planning Strategies For Individuals

- **Many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes.** If you are subject to the AMT for 2017, or suspect you might be, certain types of deductions should not be accelerated, such as state property taxes on your residence, state income taxes, miscellaneous itemized deductions, and personal exemption deductions.

- **You may be able to save taxes by applying a bunching strategy** to pull "miscellaneous" itemized deductions, medical expenses and other itemized deductions into this year. This strategy would be especially beneficial if Congress eliminates such deductions in 2018.

- You may want to **settle an insurance or damage claim** in order to maximize your casualty loss deduction this year.

- **Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retirement plans).** RMDs from IRAs must begin by April 1 of the year following the year you reach age 70-½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. Thus, if you turn age 70-½ in 2017, you can delay the first required distribution to 2018, but if you do, you will have to take a double distribution in 2018-the amount required for 2017 plus the amount required for 2018. Think twice before delaying 2017 distributions to 2018, as it may might push you into a higher tax bracket or negatively impact various income tax deductions.

- **Increase the amount you set aside in your employer's health flexible spending account (FSA)**, if you set aside too little for this year.

- **If you become eligible in December of 2017 to make health savings account (HSA)** contributions, you can make a full year's worth of deductible HSA contributions for 2017.

- **Make gifts sheltered by the annual gift tax exclusion before the end of the year.** The exclusion applies to gifts of up to $14,000 made in 2017 to each of an unlimited number of individuals. You can't carry over unused exclusions from one year to the next. Such transfers may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax.

- **If you were affected by Hurricane Harvey, Irma, or Maria, you may be entitled to special tax relief,** such as relaxed casualty loss rules and eased access to your retirement funds. In addition qualifying charitable contributions related to relief efforts in the Hurricane Harvey, Irma, or Maria disaster areas aren't subject to the usual charitable deduction limitations.

Now is the time to prepare for the remainder of the year and avoid surprises. Contact a member of Restivo Monacelli's Tax Team at 401-273-7600 today to discuss your unique situation.