2017 Year-End Tax Planning for Individuals

As 2017 draws to a close, there is still time to reduce your 2017 tax bill and plan ahead for 2018. This letter highlights several potential tax-saving opportunities for you to consider. As you may know, the government is aiming to significantly alter the tax code. The information below is the current law and if the law changes, we will update you with that information.

As a general reminder, there are several ways in which you can file an income tax return: married filing jointly, head of household, single, and married filing separately. A married couple, which includes same-sex marriages, may elect to file one return reporting their combined income, computing the tax liability using the tax tables or rate schedules for "Married Persons Filing Jointly." If a married couple files separate returns, in certain situations they can amend and file jointly, but they cannot amend a jointly filed return to file separately once the due date has passed. A joint return may be filed even though one spouse has neither gross income nor deductions. If one spouse dies during the year, the surviving spouse may file a joint return for the year in which his or her spouse died. Certain married persons who do not elect to file a joint return may be entitled to use the lower head of household tax rates. Generally, in order to qualify as a head of household, you must not be a resident alien, you must satisfy certain marital status requirements, and you must maintain a household for a qualifying child or any other person who is your dependent, if you are entitled to a dependency deduction for that person.

Basic Numbers You Need to Know

Because many tax benefits are tied to or limited by adjusted gross income (AGI)—IRA deductions, for example—a key aspect of tax planning is to estimate both your 2017 and 2018 AGI. Also, when considering whether to accelerate or defer income or deductions, you should be aware of the impact this action may have on your AGI and your ability to maximize itemized deductions that are tied to AGI. Your 2016 tax return and your 2017 pay stubs and other income and deduction-related materials are a good starting point for estimating your AGI.

Another important number is your "tax bracket," i.e., the rate at which your last dollar of income is taxed. The tax rates for 2017, barring any changes in Congress before the end of the year, will be *10%, 15%, 25%, 28%, 33%, 35%* and *39.6%.* Although tax brackets are indexed for inflation, if your income increases faster than the inflation adjustment, you may be pushed into a higher bracket. If so, your potential benefit from any tax-saving opportunity is increased (as is the cost of overlooking that opportunity).

IRA, Retirement Savings Rules

Tax-saving opportunities continue for retirement planning due to the availability of traditional and Roth IRAs and other retirement savings incentives.

Traditional IRAs: Individuals who are not active participants in an employer pension plan may make deductible contributions to an IRA. The annual deductible contribution limit for an IRA for 2017 is *$5,500*. For 2017, a *$1,000* "catch-up" contribution is allowed for taxpayers age 50 or older by the close of the taxable year, making the total limit *$6,500* for these individuals. Individuals who are active participants in an employer pension plan also may make deductible contributions to an IRA, but their contributions are limited in amount depending on their AGI. For 2017, the AGI phase-out range for deductibility of IRA contributions is between *$62,000* and *$72,000* of modified AGI for single persons (including heads of households), and between *$99,000* and *$119,000* of modified AGI for married filing jointly. Above these ranges, no deduction is allowed.

In addition, an individual will not be considered an "active participant" in an employer plan simply because the individual's spouse is an active participant for part of a plan year. Thus, you may be able to take the full deduction for an IRA contribution regardless of whether your spouse is covered by a plan at work, subject to a phase-out if your joint modified AGI is *$186,000* to *$196,000* (*$0* - *$10,000* if married filing separately) for 2017. Above this range, no deduction is allowed.

IRA Rollovers: For 2017, taxpayers may make <u>only one IRA-to-IRA rollover per year</u>. (Direct rollovers from trustee to trustee are not affected.) <u>An attempted rollover after the first will be treated as a withdrawal and taxed at regular rates,</u> plus a possible *10%* early withdrawal penalty.

Spousal IRA: If an individual files a joint return and has less compensation than his or her spouse, the IRA contribution is limited to the lesser of *$5,500* for 2017 plus age 50 catch-up contributions (*$1,000* for 2017), or the total compensation of both spouses reduced by the other spouse's IRA contributions (traditional and Roth).

Roth IRA: This type of IRA permits nondeductible contributions of up *to $5,500* (*$6,500* if making catch-up contribution) for 2017, but no more than an individual's compensation. Earnings grow tax-free, and distributions are tax-free provided no distributions are made until more than five years after the first contribution and the individual has reached age $59^{1}/_{2}$. Distributions may be made earlier on account of the individual's disability or death. The maximum contribution is phased out in 2017 for persons with an AGI above certain amounts: *$186,000* to *$196,000* for married filing jointly, and *$118,000* to *$133,000* for single taxpayers (including heads of households); and between *$0* and *$10,000* for married filing separately who lived with the spouse during the year.

Roth IRA Conversion Rule: Funds in a traditional IRA (including SEPs and SIMPLE IRAs), 401(a) qualified retirement plan, 403(b) tax-sheltered annuity or 457 government plan may be rolled over into a <u>Roth IRA</u>. Such a rollover, however, is treated as a <u>taxable event</u>, and you will pay tax on the amount converted. No penalties will apply if all the requirements for such a transfer are satisfied.

If you already made a conversion earlier this year, you have the option of undoing the conversion. This is a useful strategy if the investments have gone down in value so that if you were to do the conversion now, your taxes would be lower. This is a complicated calculation which should discussed further.

In addition, for 2017, if your 401(k) plan, 403(b) plan, or governmental 457(b) plan has a qualified designated Roth contribution program, a distribution to an employee (or a surviving spouse) from such account under the plan that is not a designated Roth account is permitted to be rolled over into a designated Roth account under the plan for the individual.

401(k) Contribution: The 401(k) elective deferral limit is *$18,000* for 2017. If your 401(k) plan has been amended to allow for catch-up contributions for 2017 and you will be 50 years old by December 31, 2017, you may contribute an additional *$6,000* to your 401(k) account, for a total maximum contribution of *$24,000* (*$18,000* in regular contributions plus *$6,000* in catch-up contributions).

SIMPLE Plan Contribution: The SIMPLE plan deferral limit is *$12,500* for 2017. If your SIMPLE plan has been amended to allow for catch-up contributions for 2017 and you will be 50 years old by December 31, 2017, you may contribute an additional *$3,000*.

Catch-Up Contributions for Other Plans: If you will be 50 years old by December 31, 2017, you may contribute an additional *$6,000* to your 403(b) plan, SEP or eligible 457 government plan.

Saver's Credit: A nonrefundable tax credit is available based on the qualified retirement savings contributions to an employer plan made by an eligible individual. For 2017, only taxpayers filing joint returns with AGI of *$62,000* or less, head of household returns with AGI of *$46,500* or less, or single returns (or separate returns filed by married taxpayers) with AGI of $31,000 or less, are eligible for the credit. The amount of the credit is equal to the applicable percentage (10% to 50%, based on filing status and AGI) of qualified retirement savings contributions up to a maximum credit of *$2,000*.

Required Minimum Distributions: For 2017, taxpayers who are at least $70^1/_2$ must take their required minimum distribution from IRAs or defined contribution (401(k) plans, 403(a) and 403(b) annuity plans, and 457(b) plans that are maintained by a governmental employer). The distribution must be taken by December 31, 2017. However, if you turn $70\ ^1/_2$ during 2017, the first distribution is not required until April 1, 2018. Note that because April 1, 2018, falls on a Sunday, you will need to withdraw the cash or sell securities to meet this requirement on an earlier day, like, Friday, March 30, 2018.

Maximize Retirement Savings: In many cases, employers will require you to set your 2018 retirement contribution levels before January 2018. But, if you did not elect the maximum 401(k) contribution for 2017, you may be able to increase your amount for the remainder of 2017 to lower your AGI in order to take advantage of some of the tax breaks described above. Maximizing your contribution is generally a good tax-saving move.

Deferring Income to 2018

If you expect your AGI to be higher in 2017 than in 2018, or if you anticipate being in the same or a higher tax bracket in 2017, you may benefit by deferring income to 2018. Deferring income will be advantageous so long as the deferral does not bump your income to the next bracket. Deferring income could be disadvantageous, however, if your deferred income is subject to §409A, thus making the income includible in gross income and subject to additional tax. Some ways to defer income include:

Delay Billing: If you are self-employed and on the cash-basis, delay year-end billing to clients so that payments will not be received until 2018.

Interest and Dividends: Interest income earned on Treasury securities and bank certificates of deposit with maturities of one year or less is not includible in income until received. To defer interest income, consider buying short-term bonds or certificates that will not mature until next year. If you might receive dividends from a closely held company, we should discuss the timing of receipt of those dividends.

Accelerating Income into 2017

In limited circumstances, you may benefit by accelerating income into 2017. For example, you may anticipate being in a higher tax bracket in 2018, or perhaps you will need additional income in order to take advantage of an offsetting deduction or credit that will not be available to you in future tax years. Note, however, that accelerating income into 2017 will be disadvantageous if you expect to be in the same or lower tax bracket for 2018. In any event, before you decide to implement this strategy, further analysis is needed.

If accelerating income will be beneficial, here are some ways to accomplish this:

Accelerate Collection of Accounts Receivable: If you are self-employed and report income and expenses on a cash basis, issue bills and attempt collection before the end of 2017. Also see if some of your clients or customers might be willing to pay for January 2018 goods or services in advance. Any income received using these steps will shift income from 2018 to 2017.

Year-End Bonuses: If your employer generally pays year-end bonuses after the end of the current year, ask to have your bonus paid to you before the end of 2017.

Retirement Plan Distributions: If you are over age $59^1/_2$ and you participate in an employer retirement plan or have an IRA, consider making any taxable withdrawals before 2018.

You may also want to consider making a Roth IRA rollover distribution, as discussed above.

Deduction Planning

Individual Deductions

Deduction timing is also an important element of year-end tax planning. Deduction planning is complex, however, due to factors such as AGI levels, AMT, and filing status. If you are a cash-method taxpayer, keep the following in mind:

Deduction in Year Paid: An expense is only deductible in the year in which it is actually paid. Under this rule, if your tax rate is going to increase in 2018, it is a smart strategy to postpone spending until after year end to take the deduction in 2018.

Payment by Check: Date checks before the end of the year and mail them before January 1, 2018.

Promise to Pay: A promise to pay or providing a note does not permit you to deduct the expense. But you can take a deduction if you pay with money borrowed from a third party. Hence, if you pay by credit card in 2017, you can take the deduction even though you won't pay your credit card bill until 2018.

AGI Limits: The overall limitation on itemized deductions ("Pease" limitation) applies to taxpayers whose AGI exceeds an "applicable amount." For 2017, the applicable amount is *$313,800* for a married couple filing a joint return or a surviving spouse, *$287,650* for a head of household, *$261,500* for an unmarried individual, and *$156,900* for a married individual filing a separate return. In addition, certain deductions may be claimed only if they exceed a percentage of AGI: *10%* for medical expenses, *2%* for miscellaneous itemized deductions, and *10%* for casualty losses (except in the case of a casualty loss due to the recent hurricanes).

Standard Deduction Planning: Deduction planning is also affected by the standard deduction. For 2017 returns, unless changed by tax reform legislation, the standard deduction is *$12,700* for married taxpayers filing jointly, *$6,350* for single taxpayers, *$9,350* for heads of households, and *$6,350* for married taxpayers filing separately. As you can see from the numbers, for 2017, the standard deduction for married taxpayers is twice the amount as that for single taxpayers. If your itemized deductions are relatively constant and are close to the standard deduction amount, you will obtain little or no benefit from itemizing your deductions each year. But simply taking the standard deduction each year means you lose the benefit of your itemized deductions. To maximize the benefits of both the standard deduction and itemized deductions, consider adjusting the timing of your deductible expenses so that they are higher in one year and lower in the following year. You can do this by paying in 2017 deductible expenses, such as mortgage interest due in January 2018, state estimated tax payments due in early 2018, or doubling up on your charitable contributions every other year.

Medical Expenses: For 2017, medical expenses, including amounts paid as health insurance premiums, are deductible only to the extent that they exceed *10%* of AGI for all taxpayers.

Unless extended by Congress, 2016 was the last year the special *7.5%* limitation applied for taxpayers age 65 or older.

State and Local Income Taxes and General Sales Taxes: If you anticipate a state income tax liability for 2018 and plan to make an estimated payment most likely due in January, consider making the payment before the end of 2017. Or, you may elect to itemize and deduct state and local general sales taxes in lieu of the itemized deduction for state and local income taxes on your 2017 return. Note that there are discussions in Congress on whether the state and local tax deduction will be eliminated during tax reform efforts. It's uncertain when this elimination, if it occurs, will be effective. If an elimination becomes effective for 2018, you may want to accelerate your deductions into 2017.

Charitable Contributions: Consider making your charitable contributions at the end of the year. This will give you use of the money during the year and simultaneously permit you to claim a deduction for that year. You can use a credit card to charge donations in 2017 even though you will not pay the bill until 2018. A mere pledge to make a donation is not deductible, however, unless it is paid by the end of the year. Note, however, for claimed donations of cars, boats and airplanes of more than *$500*, the amount available as a deduction will significantly depend on what the charity does with the donated property, not just the fair market value of the donated property. If the organization sells the property without any significant intervening use or material improvement to the property, the amount of the charitable contribution deduction cannot exceed the gross proceeds received from the sale.

If you make a qualifying charitable contribution targeted for hurricane relief efforts by December 31, 2017, a just enacted law allows you to elect to suspend the percentage limitations and certain other rules relating to the income tax deduction.

To avoid capital gains, you may want to consider giving appreciated property to charity. Regarding charitable contributions please remember the following rules: (1) no deduction is allowed for charitable contributions of clothing and household items if such items are not in good used condition or better; (2) the IRS may deny a deduction for any item with minimal monetary value; and (3) the restrictions in (1) and (2) do not apply to the contribution of any single clothing or household item for which a deduction of *$500* or more is claimed if the taxpayer includes a qualified appraisal with his or her return. Charitable contributions of money, regardless of the amount, will be denied a deduction, unless the donor maintains a cancelled check, bank record, or receipt from the donee organization showing the name of the donee organization, and the date and amount of the contribution.

A special provision gives taxpayers the ability to distribute tax-free to charity up to *$100,000* from a traditional or Roth IRA maintained for an individual who has reached age $70^{1}/_{2}$.

Business Deductions

Home Office Deduction: Expenses attributable to using the home office as a business office are deductible if the home office is used regularly and exclusively: (1) as a taxpayer's principal place of business for any trade or business; (2) as a place where patients, clients, or customers regularly meet or deal with the taxpayer in the normal course of business; or (3) in the case of a separate structure not attached to the residence, in connection with a trade or business. If you have been using part of your home as a business office, we should talk about the amount of any deduction you would like to take because an IRS safe harbor could be used to minimize audit risk.

Bonus Depreciation: Fifty percent bonus depreciation under §168(k) for assets purchased and placed in service in 2017 is available; you must elect out of bonus depreciation if you do not wish to take advantage of it. For qualifying assets placed in service in 2018, bonus depreciation is scheduled to be lower at 40%. If full expensing, as mentioned below, becomes law in 2017, bonus depreciation would become moot.

Equipment Purchases: If you are in business and purchase equipment, you may make a "section 179 election," which allows you to expense (i.e., currently deduct) otherwise depreciable business property. For 2017, the allowable deduction is *$510,000* (with a phaseout beginning at *$2,030,000*). [Bloomberg BNA projects the 2018 limits to be *$520,000/$2,070,000*, respectively.] One tax reform proposal is to allow full expensing on equipment purchases done after September 27, 2017, which would make the dollar amounts moot.

In addition, careful timing of equipment purchases can result in favorable depreciation deductions in 2017. In general, under the "half-year convention," you may deduct six months' worth of depreciation for equipment that is placed in service on or before the last day of the tax year. (If more than *40%* of the cost of all personal property placed in service occurs during the last quarter of the year, however, a "mid-quarter convention" applies, which lowers your depreciation deduction.) Cars/vans/trucks are typically limited in the amount of first-year expensing/depreciation. If bonus depreciation is not claimed, the limit is *$3,160* for 2017 (*$3,560* in the case of vans and trucks). If bonus depreciation is taken, the 2017 amounts increase to *$11,160* for cars and *$11,560* for vans and trucks. A popular strategy in recent years is to purchase a vehicle for business purposes that exceeds the depreciation limits set by statute (i.e., a vehicle rated over 6,000 pounds). Such vehicle would qualify for the full equipment expensing dollar amount. However, for SUVs (rated more than 6,000 but not over 14,000 pounds gross vehicle weight) the expensing amount is limited to *$25,000*. Note that beginning in 2018, a phase-down period begins to lower the increase in depreciation limits when bonus depreciation is taken from *$8,000* (2017) to *$6,400* (2018). To maximize the first-year deprecation it is best to put the vehicle in service in 2017 if you were contemplating this action in the next few months.

NOL Carryback Period: If your business suffers net operating losses for 2017, you generally apply those losses against taxable income going back two tax years. Thus, for example, the loss could be used to reduce taxable income—and thus generate tax refunds—for tax years as far back as 2015. Certain “eligible losses” can be carried back three years; farming losses can be carried back five years.

Capitalization v. Expensing for Materials and Supplies and Repairs: Under regulations, a deduction is allowed for materials and supplies that have an acquisition or production cost of *$200* or less. Also, a de minimis safe harbor states that for repairs to be deductible, among other requirements, the unit of property must cost less than *$5,000* per invoice or item substantiated by the invoice for taxpayers with applicable financial statements and *$2,500* per invoice for taxpayers without applicable financial statements.

Education and Child Tax Benefits

Child Tax Credit: A tax credit of *$1,000* per qualifying child under the age of 17 is available on this year's return. In order to qualify for 2017, the taxpayer must be allowed a dependency deduction for the qualifying child. Another qualifying determination is that the qualifying child must be younger than the taxpayer. The credit is phased out at a rate of *$50* for each *$1,000* (or fraction of *$1,000*) of modified AGI exceeding the following amounts: *$110,000* for married filing jointly; *$55,000* for married filing separately; and *$75,000* for all other taxpayers. These amounts are not adjusted for inflation. A portion of the credit may be refundable. The threshold earned income level to determine refundability is set by statute at *$3,000*. A newly enacted law aimed at helping taxpayers that suffered losses from the recent hurricanes allows a taxpayer to substitute 2016 earned income for 2017 earned income, if higher, for calculating the refundable portion of the child tax credit. A higher earned income can lead to a greater tax credit amount.

Credit for Adoption Expenses: For 2017, the adoption credit limitation is *$13,570* of aggregate expenditures for each child, except that the credit for an adoption of a child with special needs is deemed to be *$13,570* regardless of the amount of expenses. The credit ratably phases out for taxpayers whose income is between *$203,540* and *$243,540*.

Education Credits: The American Opportunity Tax Credit is available for qualified tuition and fees paid on behalf of a student (i.e., the taxpayer, the taxpayer's spouse, or a dependent) who is enrolled on at least a half-time basis. The maximum credit is *$2,500* (100% on the first *$2,000*, plus 25% of the next *$2,000*). The credit is available for the first four years of the student's post-secondary education. The credit is phased out at modified AGI levels between *$160,000* and *$180,000* for joint filers, and between *$80,000* and *$90,000* for other taxpayers. Forty percent of the credit is refundable, which means that you can receive up to *$1,000* even if you owe no taxes. The term “qualified tuition and related expenses” includes expenditures for “course materials” (books, supplies, and equipment needed for a course of study whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance). One way to take advantage of the credit for 2017 is to prepay spring 2018 tuition. In addition, if you know what books your student will need for the spring 2018 semester, those can be bought in 2017 and the costs qualify for the credit for 2017.

The Lifetime Learning credit maximum in 2017 is *$2,000* (20% of qualified tuition and fees up to *$10,000*). A student need not be enrolled on at least a half-time basis so long as he or she is taking post-secondary classes to acquire or improve job skills. As with the American Opportunity Tax Credit, eligible students include the taxpayer, the taxpayer's spouse, or a dependent. For 2017, the Lifetime Learning credit is phased out at modified AGI levels between *$112,000* and *$132,000* for joint filers, and between *$56,000* and *$66,000* for single taxpayers.

Coverdell Education Savings Account: The aggregate annual contribution limit to a Coverdell education savings account is *$2,000* per designated beneficiary of the account. The limit is phased out for individual contributors with modified AGI between *$95,000* and *$110,000* and joint filers with modified AGI between *$190,000* and *$220,000*. The AGI amounts are not indexed for inflation. The contributions to the account are nondeductible but the earnings grow tax-free.

Student Loan Interest: You may be eligible for an above-the-line deduction for student loan interest paid on any “qualified education loan.” The maximum deduction is *$2,500*. The deduction for 2017 is phased out at a modified AGI level between *$130,000* and *$160,000* for joint filers, and between *$65,000* and *$80,000* for individual taxpayers.

Kiddie Tax: The kiddie tax applies to: (1) children under 18 who do not file a joint return; (2) 18-year-old children who have unearned income in excess of the threshold amount, do not file a joint return, and who have earned income, if any, that does not exceed one-half of the amount of the child's support; and (3) children between the ages of 19 and 23 if, in addition to the above rules, they are full-time students. A parent may elect to include a child's gross income in the parent's gross income and to calculate the “kiddie tax.” One of the requirements for the parental election is that a child's gross income is more than *$1,050* but less than *$10,500* for 2017. If a child has more than *$2,100* for 2017 in interest, dividends, and other unearned income, and the income is not or cannot be reported on a parent's return by filing Form 8814, part of that income may be taxed to the child at the parent's tax rate instead of the child's tax rate.

Achieving a Better Life Experience (ABLE) Accounts: This is a relatively new type of savings account for individuals with disabilities and their families. For 2017, taxpayers can contribute up to *$14,000* (tied to the annual gift tax exclusion, which is projected to be *$15,000* in 2018). Distributions are tax-free if used to pay the beneficiary's qualified disability expenses.

Energy Incentives

Residential Energy Efficient Property Credit: Tax incentives are available to taxpayers who install certain energy efficient property, such as photovoltaic panels and solar water heating property. A credit is available for the expenditures incurred for such property up to a specific percentage.

Business Credits

Small Employer Pension Plan Startup Cost Credit: For 2017, certain small business employers that did not have a pension plan for the preceding three years may claim a nonrefundable income tax credit for expenses of establishing and administering a new retirement plan for employees. The credit applies to *50%* in qualified administrative and retirement-education expenses for each of the first three plan years. However, the maximum credit is *$500* per year.

Employer-Provided Child Care Credit: For 2017, employers may claim a credit of up to *$150,000* for supporting employee child care or child care resource and referral services. The credit is allowed for a percentage of "qualified child care expenditures" including for property to be used as part of a qualified child care facility, for operating costs of a qualified child care facility and for resource and referral expenditures.

Work Opportunity Credit: The work opportunity credit is an incentive provided to employers who hire individuals in groups whose members historically have had difficulty obtaining employment, including the long-term unemployed. This gives your business an expanded opportunity to employ new workers and be eligible for a tax credit against the wages paid. A newly enacted law provides a wage credit for employers who had to shut down their business due to the recent hurricanes but kept employees on the payroll. The credit is calculated based on wages paid prior to January 1, 2018. However, the work opportunity credit cannot be taken if the employee retention credit is claimed.

Investment Planning

Unless amended during the current tax reform process, the following rules apply for most capital asset transactions in 2017:

• Capital gains on property held one year or less are taxed at an individual's ordinary income tax rate.

• Capital gains on property held for more than one year are taxed depending on your regular income tax bracket. The maximum rate is *20%* for a taxpayer in the *39.6%* tax bracket. Other capital gains rates are: *0%* if an individual is in the *10%* or *15%* marginal tax bracket; and *15%* for individuals in the *25%, 28%, 33%* and *35%* brackets.

An additional *3.8%* tax is levied on certain unearned income. The tax is levied on the lesser of net investment income (NII) or the amount by which modified AGI (MAGI) exceeds certain dollar amounts (*$250,000* for joint returns and *$200,000* for individuals). Investment income is: (1) gross income from interest, dividends, annuities, royalties, and rents (other than from a trade or business); (2) other gross income from any business to which the tax applies; and (3) net gain attributable to property that is not attributable to an active trade or business. Investment income does not include distributions from a qualified retirement plan or amounts subject to self-employment tax. This rule applies mostly to passive businesses and the trading in financial instruments or commodities. With this additional tax, the maximum net capital gains rate is *23.8%* in 2017. Year-end strategies to reduce exposure to the NII would be to: (1) exchange property through a like-kind exchange to defer recognition of any gain until a future year when MAGI may be lower; or (2) if planning on selling your principal residence that has a gain over the exempted amounts from §121 (*$250,000/$500,000* depending on filing status), consider postponing the sale until after the year, if you believe your income will be lower.

Timing of Sales: You may want to time the sale of assets so as to have offsetting capital losses and gains. Capital losses may be fully deducted against capital gains and also may offset up to *$3,000* of ordinary income (*$1,500* for married filing separately). In general, when you take losses, you must first match your long-term losses against your long-term gains, and short-term losses against short-term gains. If there are any remaining losses, you may use them to offset any remaining long-term or short-term gains, or up to *$3,000* (or *$1,500*) of ordinary income. When and whether to recognize such losses should be analyzed in light of the possible future changes in the capital gains rates applicable to your specific investments.

Dividends: Qualifying dividends received in 2017 are subject to rates similar to the capital gains rates. Therefore, qualifying dividends are taxed at a maximum rate of *20%* (*23.8%* if subject to the net investment tax). Qualifying dividends include dividends received from domestic and certain foreign corporations. Nonqualifying dividends are subject to ordinary income rates (up to *43.4%* (*39.6%* income tax rate plus *3.8%* net investment income tax rate)).

Exclusion of Gain Attributable to Certain Small Business Stock: *100%* of the gain on the sale of "small business stock" under §1202 that is acquired after September 27, 2010, is excluded from income. The stock must be held for more than five years to qualify. If you acquired such stock on or before September 27, 2010, other exclusion percentages apply. If you are in this situation, we can discuss the details.

Installment Sales: Generally, a sale occurs when you transfer property. If a gain will be realized on the sale, income recognition will normally be deferred under the installment method until payments are received, so long as one payment is received in the year after the sale. So if you are expecting to sell property at year-end, and it makes economic sense, consider selling the property using the installment method to defer payments (and tax) until next year or later. Using the installment sale method may also defer exposure to the *3.8%* NIIT.

Health Care Planning

Individual Mandate: Under the 2010 health care law, sometimes called Obamacare, there is an individual mandate requiring individuals and their dependents to have health insurance that is minimum essential coverage or pay a penalty unless they are exempt from the requirement. Many people already have qualifying coverage, which can be obtained through the individual market, an employer-provided plan or coverage, a government program such as Medicare or Medicaid, or an Exchange. For lower-income individuals who obtain health insurance in the individual market through an Exchange, a premium tax credit and cost-sharing reductions may be available to offset the costs.

Health Care Flexible Spending Accounts: For 2017, cafeteria plans can provide that employees may elect no more than *$2,600* in salary reduction contributions to a health FSA. Typically, employers require the following year's election to be set prior to the end of the year. To estimate the best amount to contribute, you'll need to identify potential medical expenses. [Bloomberg BNA projects the 2018 amount to be *$2,650*.]

Self-Employed Health Insurance Premiums: Self-employed individuals are allowed to claim *100%* of the amount paid during the taxable year for insurance that constitutes medical care for themselves, their spouses and dependents as an above-the-line deduction, without regard to the general *10%* of AGI floor.

Health Savings Accounts: A health savings account (HSA) is a trust or custodial account exclusively created for the benefit of the account holder and his or her spouse and dependents, and is subject to rules similar to those applicable to individual retirement arrangements (IRAs). Contributions to an HSA are deductible, within limits. For 2017, the annual limitation on deductions for an individual with self-only coverage under a high deductible health plan is *$3,400*; for an individual with family coverage under a high deductible health plan is *$6,750*. For 2017, a "high deductible health plan" is a health plan with an annual deductible that is not less than *$1,300* for self-only coverage or *$2,600* for family coverage, and the annual out-of-pocket expenses (deductibles, co-payments, and other amounts, but not premiums) do not exceed *$6,550* for self-only coverage or *$13,100* for family coverage. In computing the annual HSA contribution amount, an individual who is eligible during the last month of a taxable year is treated as having been eligible for all prior months during the taxable year and, thus, is allowed to make contributions for months before the individual was enrolled in a high deductible health plan.

Alternative Minimum Tax

Unless altered by tax reform legislative process, for 2017, the alternative minimum tax exemption amounts are: (1) *$84,500* for married individuals filing jointly and for surviving spouses; (2) $54,300 for unmarried individuals other than surviving spouses; and (3) *$42,250* for married individuals filing a separate return. Also, for 2017, nonrefundable personal credits can offset an individual's regular and alternative minimum tax, and capital gains will be taxed at lower favorable rates for AMT. For 2017, the amount of AMTI above which the *28%* rate applies is *$93,900* for married taxpayers filing separate returns and *$187,800* for married individuals filing joint returns, single taxpayers (other than surviving spouses), and estates and trusts.
If you have a stock holding due to the exercise of an incentive stock option during this year that is now below the value at the exercise date (underwater), consider selling the shares before the end of the year to avoid the AMT tax due on the original exercise of the option.

Estimated Tax Payments

An individual taxpayer may be able to avoid any underpayment penalties by paying estimated taxes based on 100% of the tax shown on the prior year return. However, if an individual's adjusted gross income as shown on the tax return for the preceding tax year exceeds *$150,000* (*$75,000* in the case of a married individual who files separately), the amount of the required installment is generally increased to *110%* of the tax shown on the prior year's return. An income tax projection should be completed in order to determine the best option.

Gift Giving

Annual Gift Tax Exclusion: The most commonly used method for tax-free giving is the annual gift tax exclusion, which, for 2017, allows a person to give up to *$14,000* to each donee without reducing the giver's estate and lifetime gift tax exclusion amount. A person is not limited as to the number of donees to whom he or she may make such gifts. Further, because the annual exclusion is applied on a per-donee basis, a person can leverage the exclusion by making gifts to multiple donees (family and non-family). Thus, if an individual makes *$14,000* gifts to 10 donees, he or she may exclude *$140,000* from gift tax. In addition, because spouses may combine their exclusions in a single gift from either spouse, married givers may double the amount of the exclusion to *$28,000* per donee. A person may not carry over his or her annual gift tax exclusion amount to the next calendar year. Qualifying tuition payments and medical payments do not count against this limit. The annual exclusion amount for 2018 is *$15,000*.

Some of the standard year-end planning ideas will not reduce tax liability if you are subject to the alternative minimum tax (AMT) because different rules apply. For example, state income and property tax deductions, miscellaneous itemized deductions, and personal exemption deductions are disallowed in calculating AMT. Because of the complexity of the AMT, it would be wise for us to analyze your AMT exposure.

Reporting

Form 1040: Individual taxpayers file their income tax return on Form 1040, *U.S. Individual Income Tax Return*, with a standard due date of April 15, with an automatic 6-month extension until October 15. The deadlines could be extended if they fall on a weekend or holiday. For 2017, returns will be due on or before Tuesday, April 17, 2018.

FBAR: U.S. persons holding any financial interest in, or signature or other authority over, a foreign financial account exceeding *$10,000* at any time in a calendar year must file a Report of Foreign Bank and Financial Accounts (FBAR) with the Treasury Department. The due date for 2017 is the same as the U.S. tax filing deadline of April 15, 2018 (unless extended by a weekend or holiday), with an automatic six-month extension to October 15 if the original due date is not met.

Penalties: The tax code imposes a host of penalties for late-filed returns, failure to file returns with the IRS, failure to furnish information returns, and failure to pay tax. Many penalties are subject to inflation adjustments.