Jack Skehan and Associates
TAX PREPARATION

SPECIAL 2017 TAX ADVISORY

Year-end 2017 is shaping up as a very important deadline to have strategies in place to take advantage of tax saving opportunities before they sunset at the close of the tax year on December 31, 2017.

Our year end newsletter with appointment will follow later in December.

Dear Clients:

As 2017 draws to a close, an uncertain tax and legislative environment means that year-end tax planning for both individuals and businesses is more important than usual. The possibility of major tax reform opens up powerful planning opportunities that could save tax dollars if completed before year's end. Tax filers should look for ways to accelerate deductions into 2017 while rates are high, and defer income into future years when rates might be lower. The potential to lose deductions or tax incentives as part of tax reform should also factor into year-end planning. Remember that good tax planning goes beyond what has happened. You also have to account for what may happen in the months to come.

Tax reform is going to be a bumpy ride, probably somewhat akin to the health reform saga. A big sticking point: The impact on the federal deficit. Senate fiscal hawks could end up balking if the tax cuts threaten to add too much to the national debt. Most of the reform provisions, if passed, will apply to tax years beginning after 2017. A major challenge to this year's planning involves the uncertainty that will remain into late December/early January over pending tax reform legislation. Tax reform is expected to compress tax brackets, lower rates and reduce itemized deductions. If enacted, most taxpayers are expected to be in a lower tax bracket in 2018. Additionally, the standard deduction may double and some deductions be eliminated, making the itemized deduction threshold much harder to reach. Personal exemptions may also be eliminated. These expected changes present year-end tax planning opportunities and depend on the effective date of the proposed changes. Effective strategies in response to any of these "tax reform" priorities involve close monitoring of any proposed tax bill as it moves through negotiations within various Congressional tax committees and Trump administration officials, with year-end action steps ready to go based upon alternative legislative outcomes. **Now** is the perfect time to do some planning to minimize 2017 taxes.

Income tax rates. One of the most significant factors in tax planning for individuals is their tax bracket. Again, the most direct control taxpayers have over their tax bracket rests in the ability to control the timing of income and deductible expenses. Suggestions include the proper timing of year-end bonuses as well as the timing of investment or property sales to maximize capital gains benefits. Also, sometimes fairly sophisticated "like-kind exchanges," "installment sales" or "placed in service" rules for business or investment properties come into play.

Investments. Taxpayers holding investments, whether in the form of securities, real estate, collectibles, or other assets, often have an opportunity to reduce their overall tax bill by some strategic buying and selling toward the end of the year. Balancing tax considerations with other factors is part of the challenge in dealing with investments, including: the ordinary income tax rates, the net investment income tax rate, the capital gain rates, and the alternative minimum tax (AMT). (The AMT may be eliminated in the tax reform under consideration.) Investors not qualifying for the

0% capital gains rate (only those in the 10% or 15% tax bracket qualify) but who own stocks or mutual funds that have declined in value may want to consider selling before year-end. These losses can offset gains from the sale of other investments and/or capital gains distributions from mutual funds.

Income caps on benefits. Monitoring adjusted gross income (AGI) at year-end can also pay dividends in qualifying for a number of tax benefits, such as the Earned Income Tax Credit, the American Opportunity Tax Credit and the Child Tax Credit. Often tax savings can be realized by lowering income in one year at the expense of realizing a bit more in another year.

<u>Other 2017 year-end tax strategies are much more attractive for clients able to itemize</u>. Because Itemized deductions will be less valuable if you find yourself in a lower tax bracket or unable to itemize in the future, many may find it advantageous to accelerate 2018 expenses into 2017. For example, many taxpayers make the bulk of their charitable contributions at year-end. But you may want to disburse some of 2018's generosity in 2017 as well. Also, paying your mortgage, real estate tax and state income tax estimates, normally due in January by December 31 is another way to beef up your 2017 deductions. The medical deduction is possibly on the list to be cut. If you are able to claim medical expenses (over 10% of AGI), be sure to pay for glasses, hearing aids, prescriptions and exams in 2017.

In other situations implementation of more basic concepts are just as useful. For example, taxpayers can write a check or can charge an item by credit card and treat these actions as payments. It often does not matter for tax purposes when the recipient receives the check mailed by the payer, or when a bank honors the check, or when the taxpayer pays the credit card bill, as long as it is done or delivered "in due course."

2017 Year-End Tax Planning – Businesses

As year-end approaches, each business should consider the many opportunities that might be lost if year-end tax planning is not explored. The last few weeks of the year provide an important "last chance" to change the final course of your businesses tax year before it closes for good. A business may want to consider several general strategies, again, such as use of traditional timing techniques for delaying income recognition and accelerating deductions. A business should also consider customized strategies tailored to its particular situations.

New Asset Purchases. While we never recommend spending money just to save taxes, we often advise clients that it is wise to invest in their business to makes the business better. Thus assets purchased to make your business more efficient, and/or save labor would be the type of expenditures we recommend. We look at the tax savings as an added bonus. And be sure your company's cash flow will not be adversely affected.

Business use of vehicles. Several year-end strategies involving both business expense deductions for vehicles and the fringe-benefit use of vehicles by employees require an awareness of certain rates and dollar caps that change annually. Changes affecting 2017 include a drop in the standard business mileage allowance rate to 53.5 cents-per-mile, down from 54 cents-per-mile for 2016. The maximum depreciation limits for passenger automobiles first placed in service during the 2017 calendar year remain the same as 2016.

Affordable Care Act. Despite Congressional attempts to repeal the Affordable Care Act (ACA), the basic structure of the ACA for businesses, both large and small, generally remains intact. If an employer is an applicable large employer (ALE) based on the previous year's employee head-count, employer shared responsibility provisions and employer information reporting provisions are triggered. Small businesses, however, are not unaffected by the ACA and should take the ACA into account in year-end planning. Some incentives in the ACA could help maximize tax savings for small businesses. Planning now, both to qualify for 2017 incentives and to meet 2018 compliance requirements, is advisable.

Small employers can again reimburse employees for their individual health insurance premiums! A new law signed by President Obama restores the ability of small employers to reimburse employees for their individual health insurance premiums beginning January 1, 2017. The 21st Century Cures Act exempts qualified small employer health reimbursement arrangements from many of the Affordable Care Act's (ACA) requirements. It also provides funding for medical research and additional provisions designed to improve compliance with mental health parity requirements.

Since late 2013, IRS Notice 2013-54 and other guidance prohibited most employers from reimbursing individual health insurance premiums for employees. These arrangements violated many of the ACA's requirements. Failure to comply could result in a hefty self-reported excise tax of up to $36,500 per person per year.

This new law offers small employers the opportunity to reevaluate this benefits approach. However, it does not give employers free rein to reimburse all manner of individual health insurance premiums. Numerous limitations appear in the law that did not apply prior to 2013.

Health Reimbursement Arrangements (HRAs). This is another way to help employees with medical expenses and is an employer-funded health plan used to reimburse employees for out of pocket medical expenses. HRAs are considered a fringe benefit, thus tax deductible by the employer and tax free to the employee.

HRAs are used in one of two ways, 1) the employer offers an Integrated HRA, paired with a high-deductible health insurance plan. Or, 2) the employer offers a stand-alone HRA that employees may use on a variety of medical expenses - including health insurance premiums. This is a great way to provide a little extra pizazz tax free to your employees.

A couple of reminders: The "Gig" economy. Approximately 2.5 million taxpayers are now earning income each month in the "gig" economy (Uber, AirBnB & others), also commonly referred to as the "sharing" or "on-demand" economy. Participation continues to swell and is expected to double by 2020. In recognition of the increasing importance of the gig economy, the IRS opened a "Sharing Economy Tax Center" this year on its website. It also is reportedly stepping up its audit coverage of taxpayers working in the "gig" economy.

Health savings accounts. The IRS announced the annual inflation adjustments for limits on deductible contributions to health savings accounts (HSAs). For calendar year 2018, the annual limitation on deductions for an individual with self-only coverage under a high-deductible health plan (HDHP) is $3,450 and for an individual with family coverage under an HDHP is $6,900.

Are you required to take RMDs from your IRA? If yes – do you know you can donate directly to a charity from your IRA and that the amount donated **will not be taxed to you, even if you do not itemize deductions**. Be sure we are aware of this donation when you come for your appointment.

A note to clients investing in Limited Partnerships. Due to the complexity of the tax reporting of limited partnerships, especially when selling these interests, we caution against these investments and advise that increased tax prep fees be factored into your Return on Investment calculation. If your investment advisor is convinced you should invest in a limited partnership, make a worthwhile investment, well above five or ten thousand dollars.

And our final reminder before we mail our usual newsletter with next year's appointments - Be sure your LLC and/or S-Corp is in good standing with the Secretary of State.

Has your income changed since you filed your last return? Have you started school or started a business? Married or divorced? Retired? Had a baby? Purchased a house? Incurred serious medical expenses? Changed your health insurance? These and many other life experiences can affect your tax return so planning for those events now can save you money later. Waiting until January will be too late to influence your 2017 tax bill - call today and schedule an appointment with one of our tax professionals. We pay attention to all this stuff so you don't have to.

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Jack Skehan and Associates
Tax Preparation
30 BRIDGE STREET
GARDINER, ME 04345