Hettick
Accounting & Tax, LLC

2017 Year-End Tax Planning – Individuals

Dear Client:

Year-end 2017 is shaping up as an important deadline to have tax strategies in place to take advantage of certain opportunities before they sunset along with the close of the tax year on December 31, 2017. A major challenge this year, of course, involves the uncertainty that will remain, likely into late December, over pending tax reform legislation. This includes uncertainty regarding rate cuts, certain deductions, and much more. 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 the various Congressional tax committees and Trump administration officials, with year-end action steps ready to go based upon alternative legislative outcomes.

Although year-end 2017 may be unique because of possible tax reform, planning during the final weeks and months of this year involves much more –both in terms of traditional year-end strategies and strategies developed in response to developments that have taken place since last year. Here are some points to consider:

Data gathering. Year-end planning should start with data collection and a review of prior year returns. This includes information on losses or other carryovers, estimated tax installments, and items that were unusual. Conversations regarding next year should include discussions of any plans for significant purchases or dispositions, as well as any possible life cycle events.

Income tax rates. One of the most significant factors in tax planning for individuals is their tax bracket. The most direct control taxpayers have over their tax bracket rests in their ability to control the timing of income and deductible expenses. For example, taxpayers who expect to be in a lower tax bracket in 2018 should consider deferring income to 2018 and accelerating deductions into 2017. Also relevant are "tax reform" proposals that may compress tax brackets and lower tax rates. These changes could present year-end tax planning opportunities for taxpayers depending on when any proposed rate changes go into effect.

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, as well as, exchanging appreciated assets for like-kind property in order to defer gains. 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).

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

Life events. The biggest variables for many taxpayers impacting their year-end tax planning surrounds life events such as marriage, divorce, birth or adoption of a child, a new job or the loss of a job, and retirement. These life events may, for instance, result in a change in filing status that will affect tax liability. The possibility of significant changes and/or significant or unusual items of income or loss should also be part of a year-end tax strategy. Additionally, taxpayers need to take a look into the future and predict, if possible, any events that could trigger significant income, losses, or deductions.

2017 tax law changes. In addition to possible changes for the 2018 tax year, and more remotely for 2017, that may be part of recent "tax reform" efforts, other tax law changes by the IRS and the courts that have taken place during 2017 are worth a look in mapping out year-end strategies.

- ***Charitable contribution substantiation.*** In response to concerns from some in Congress and the nonprofit community, the IRS withdrew proposed regulations that would have required more stringent reporting procedure for charitable contributions of $250 or more. In general, however, courts have offered various opinions during 2017 on how strictly taxpayers must meet the substantiation requirements for claiming various charitable contributions depending on the type of donation.
- ***Relief for late rollovers.*** The IRS unveiled a new self-certification procedure for taxpayers who inadvertently miss the 60-day time limit for certain retirement plan distribution rollovers.
- ***Per taxpayer mortgage deduction.*** The IRS announced that it would not contest a Ninth Circuit Court of Appeals defeat that found that multiple unmarried taxpayers co-owning a qualifying residence can double the normal $1.1 million mortgage debt limit for interest deduction purposes.
- ***Hurricane disaster relief.*** For victims of Hurricanes Harvey, Irma and Maria in 2017, a variety of tax relief measures are now available, through a special Disaster Relief Act of 2017 and numerous IRS measures to extend compliance deadlines and other requirements.
- ***Offers in compromise.*** The IRS has updated its policy covering offer in compromise (OIC) applications received on or after March 27, 2017.
- ***Interest rates.*** Interest rates have slowly been rising throughout 2017 and are expected to continue to rise into 2018, which points to various tax planning opportunities or the closing of certain tax advantages.

Timing rules. Timing, and the skilled use of timing rules to accelerate and defer certain income or deductions, is the linchpin of year-end tax planning. For example, timing year-end bonuses or year-end tax payments, or timing sales of investment properties to maximize capital gains benefits should be considered. So, too, sometimes fairly sophisticated "like-kind exchange," "installment sale" or "placed in service" rules for business or investment properties come into play. In other situations, however, 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 a check mailed by the payor, when a bank honors the check, or when the taxpayer pays the credit card bill, as long as done or delivered "in due course."

Please feel free to call our offices if you have any questions about how year-end tax planning might help you save taxes. Our tax laws operate largely within the confines of "the tax year." Once 2017 is over, tax savings that are specific to this year may be gone forever.

Sincerely,

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