Dear Client:

As 2016 draws to a close, there is still time to reduce your 2016 tax bill and plan ahead for 2017. This letter highlights several potential tax-saving opportunities for you to consider, and we would be happy to meet with you to discuss specific strategies.

Post-Election Tax Policy

First a quick look ahead to what may be coming in 2017. President-elect Trump declared that a "major tax bill lowering taxes in this country" would be one of his top three priorities. The promise to put his tax reduction plan in place for 2017, should cause everyone revisit their year-end tax moves to make the most of what might be a windfall savings next year.

The standard year-end tax-savings wisdom always has been to defer income, where possible, into the coming year. This standard approach would make even more sense for taxpayers if the Trump tax plan prevails over others in Congress, and goes into effect for tax year 2017.

During the campaign, Trump proposed to compress the seven current tax brackets into three and to reduce rates on ordinary income. Below is a summary of the proposed income tax rate structure:

INDIVIDUAL INCOME TAX RATES

Current Rates	Trump/GOP Rates	Joint Filers : Blueprint	Single Filers: Blueprint
10% 15%	0%/12%	up to $75,300	up to $37,650
25% & 28%	25%	up to $231,450	up to $190,150
33%, 35% & 39.6%	33%	above $231,450	above $190,150

Trump proposed to lower the business tax rate to 15 percent and eliminate the corporate alternative minimum tax during the campaign. Whether or not the President-elect can pass tax reform in the first year of office remains to be seen, but all taxpayers should be aware of potential tax savings in 2017.

2016 Planning Is Now

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 2016 and 2017 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 2015 tax return and your 2016 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 2016 have not changed from 2015 and are 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).

There are factors that compound the planning challenge this year including turbulence in the stock market, overall economic uncertainty, and Congress's all too familiar failure to act on a number of important tax breaks that will expire at the end of 2016. Some of these expiring tax breaks will likely be extended, but perhaps not all, and as in the past, Congress may not decide the fate of these tax breaks until the very end of 2016 (or later).

For individuals, these breaks include: the exclusion for discharge of indebtedness on a principal residence, the treatment of mortgage insurance premiums as deductible qualified residence interest, the 7.5% of adjusted gross income floor beneath medical expense deductions for taxpayers age 65 or older, and the deduction for qualified tuition and related expenses. There is also a host of expiring energy provisions, including: the nonbusiness energy property credit, the residential energy property credit, the qualified fuel cell motor vehicle credit, the alternative fuel vehicle refueling property credit, the credit for 2-wheeled plug-in electric vehicles, the new energy efficient homes credit, and the hybrid solar lighting system property credit.

Higher-income earners have unique concerns to address when mapping out year-end plans. They must be wary of the 3.8% surtax on certain unearned income and the additional 0.9% Medicare (hospital insurance, or HI) tax.

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 an unindexed 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). As year-end nears, a taxpayer's approach to minimizing or eliminating the 3.8% surtax will depend on his estimated MAGI and NII for the year. Some taxpayers should consider ways to minimize (e.g., through deferral) additional NII for the balance of the year, others should try to see if they can reduce MAGI other than NII, and other individuals will need to consider ways to minimize both NII and other types of MAGI.

The 0.9% additional Medicare tax also may require year-end actions. 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 ($250,000 for joint filers, $125,000 for married couples filing separately, and $200,000 in any other case). 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. For example, if an individual earns $200,000 from one employer during the first half of the year and a like amount from another employer during the balance of the year, he would owe the additional Medicare tax, but there would be no withholding by either employer for the additional Medicare tax since wages from each employer don't exceed $200,000.

We have compiled a list of additional actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular situation, but you (or a family member) will likely benefit from many of them. We can narrow down the specific actions that you can take once we meet with you to tailor a particular plan. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves to make:

Year-End Tax Planning Moves for Individuals

Postpone income until 2017 and accelerate deductions into 2016 to lower your 2016 tax bill. This strategy may enable you to claim larger deductions, credits, and other tax breaks for 2016 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 pay to actually accelerate income into 2016. For example, this may be the case where a person's marginal tax rate is much lower this year than it will be next year or where lower income in 2017 will result in a higher tax credit for an individual who plans to purchase health insurance on a health exchange and is eligible for a premium assistance credit.
Investment Planning

- 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.
- 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. It may be advisable for us to meet to discuss year-end trades you should consider making.

IRA and Retirement Savings Accounts

- 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 2016.
- 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.

- Take an eligible rollover distribution from a qualified retirement plan before the end of 2016 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 2016. 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 2016, but the withheld tax will be applied pro rata over the full 2016 tax year to reduce previous underpayments of estimated tax.
- Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retirement plan). RMDs from IRAs must begin by April 1 of the year following the year you reach age 70-½. That start date also applies to company plans, but non-5% company owners who continue working may defer RMDs until April 1 following the year they retire. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. Although RMDs must begin no later than April 1 following the year in which the IRA owner attains age 70-½, the first distribution calendar year is the year in which the IRA owner attains age 70-½. Thus, if you turn age 70-½ in 2016, you can delay the first required distribution to 2017, but if you do, you will have to take a double distribution in 2017—the amount required for 2016 plus the amount required for 2017. Think twice before delaying 2016 distributions to 2017, as bunching income into 2017 might push you into a higher tax bracket or have a detrimental impact on various income tax deductions that are reduced at higher income levels. However, it could be beneficial to take both distributions in 2017 if you will be in a substantially lower bracket that year.

Deferring Individual Income

- It may be advantageous to try to arrange with your employer to defer, until early 2017, a bonus that may be coming your way.
- Increase the amount you set aside for next year 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 2016 to make health savings account (HSA) contributions, you can make a full year's worth of deductible HSA contributions for 2016.

Accelerating Individual Deductions

- Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2016 deductions even if you don't pay your credit card bill until after the end of the year.
- If you expect to owe state and local income taxes when you file your return next year, consider asking your employer to increase withholding of state and local taxes (or pay estimated tax payments of state and local taxes) before year-end to pull the deduction of those taxes into 2016 if you won't be subject to alternative minimum tax (AMT) in 2016.
- You may be able to save taxes this year and next by applying a bunching strategy to “miscellaneous” itemized deductions, medical expenses and other itemized deductions
- For 2016, the “floor” beneath medical expense deductions for those age 65 or older is 7.5% of adjusted gross income (AGI). Unless Congress changes the rules, this floor will rise to 10% of AGI next year. Taxpayers age 65 or older who can claim itemized deductions this year, but

- won't be able to next year because of the higher floor, should consider acceleratin discretionary or elective medical procedures or expenses (e.g., dental implants or expensive eyewear).
- You may want to pay contested taxes to be able to deduct them this year while continuing to contest them next year.
- You may want to settle an insurance or damage claim in order to maximize your casualty loss deduction this year.

Alternative Minimum Tax

- Estimate the effect of any year-end planning moves on the AMT for 2016, keeping in mind that many tax breaks allowed for purposes of calculating regular taxes are disallowed for AMT purposes. These include the deduction for state property taxes on your residence, state income taxes, miscellaneous itemized deductions, and personal exemption deductions. Other deductions, such as for medical expenses of a taxpayer who is at least age 65 or whose spouse is at least 65 as of the close of the tax year, are calculated in a more restrictive way for AMT purposes than for regular tax purposes. If you are subject to the AMT for 2016, or suspect you might be, these types of deductions should not be accelerated.

Energy Tax Credits

- If you are thinking of installing energy saving improvements to your home, such as certain high-efficiency insulation materials, do so before the close of 2016. You may qualify for a “nonbusiness energy property credit” that won't be available after this year, unless Congress reinstates it.

Gift Giving

- Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby save gift and estate taxes. The exclusion applies to gifts of up to $14,000 made in 2016 and 2017 to each of an unlimited number of individuals. You can't carry over unused exclusions from one year to the next. The transfers also 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.

Foreign Bank Account Reporting

- 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 2016 is the same as the U.S. tax filing deadline of April 15, 2017 (unless extended by a weekend or holiday), with a maximum six-month extension to October 15. The tax code imposes a host of penalties for failure to file returns with the IRS, failure to furnish information returns, and failure to pay tax.

Year-End Tax Planning Moves for Businesses & Business Owners

Filing Deadline Changes

- For partnerships reporting on a calendar year, the filing deadline has been moved up to March 15th, and for partnerships reporting on a fiscal year, the filing deadline is the 15th day of the third month following the close of the fiscal year. The reporting deadlines for S corporations have not changed and remains March 15th or the 15th day of the third month following the close of the taxable year for fiscal year S corporations.

- For C corporations reporting on a calendar year, the 2016 filing deadline is now on or before April 15th. For C corporations reporting on a fiscal year other than one ending June 30, the filing date is the 15th day of the fourth month following the close of the taxable year. For June 30 fiscal year C corporation filers, the filing deadline remains the 15th day of the third month following the close of the taxable year (September 15). Effective for returns for tax years beginning after December 31, 2016 and before January 1, 2026, there is an automatic five month extension for calendar year C corporations, and an automatic seven month extension for fiscal-year C corporations with a taxable year ending on June 30.

Business Deductions

- Businesses should consider making expenditures that qualify for the business property expensing option. For tax years beginning in 2016, the expensing limit is $500,000 and the investment ceiling limit is $2,010,000. Expensing is generally available for most depreciable property (other than buildings), off-the-shelf computer software, and qualified real property— qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property. The generous dollar ceilings that apply this year mean that many small and medium sized businesses that make timely purchases will be able to currently deduct most if not all their outlays for machinery and equipment. What's more, the expensing deduction is not prorated for the time that the asset is in service during the year. This opens up significant year-end planning opportunities.
- Businesses also should consider making expenditures that qualify for 50% bonus first year depreciation if bought and placed in service this year. The bonus depreciation deduction is permitted without any proration based on the length of time that an asset is in service during the tax year. As a result, the 50% first-year bonus writeoff is available even if qualifying assets are in service for only a few days in 2016.
- Businesses may be able to take advantage of the "de minimis safe harbor election" (also known as the book-tax conformity election) to expense the costs of lower-cost assets and materials and supplies, assuming the costs don't have to be capitalized under the Code Sec. 263A uniform capitalization (UNICAP) rules. To qualify for the election, the cost of a unit of property can't exceed $5,000 if the taxpayer has an applicable financial statement (AFS; e.g., a certified audited financial statement along with an independent CPA's report). If there's no AFS, the cost of a unit of property can't exceed $2,500. Where the UNICAP rules aren't an issue, purchase such qualifying items before the end of 2016.

Deferring Business Income into 2017

- Deferring income to the next taxable year is a time-honored year-end planning tool. If you expect your taxable income to be higher in 2016 than in 2017, or if you anticipate being in the same or a higher tax bracket in 2016 than in 2017, you may benefit by deferring income into 2017. Of course, if an individual is subject to the alternative minimum tax, standard tax planning may not be warranted. Some ways to defer income include: use of the cash method of accounting, installment sales, and delay billing.
- To reduce 2016 taxable income, consider deferring a debt-cancellation event until 2017.
- You may want to consider disposing of a passive activity in 2016 if doing so will allow you to deduct suspended passive activity losses from previous years.

Accelerating Business Income into 2016

- You may benefit from accelerating income into 2016. For example, you may anticipate being in a higher tax bracket in 2017, or perhaps you need additional income in 2016 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 2016 could be disadvantageous if you expect to be in the same or lower tax bracket for 2017. If you report your business income and expenses on a cash basis, issue bills and pursue collection before the end of 2016. Also, see if some of your clients or customers are willing to pay for January 2017 goods or services in advance. Any income received using these steps will shift income from 2017 to 2016.
- A corporation (other than a "large" corporation) that anticipates a small net operating loss (NOL) for 2016 (and substantial net income in 2017) may find it worthwhile to accelerate just enough of its 2017 income (or to defer just enough of its 2016 deductions) to create a small amount of net income for 2016. This will permit the corporation to base its 2017 estimated tax installments on the relatively small amount of income shown on its 2016 return, rather than having to pay estimated taxes based on 100% of its much larger 2017 taxable income.

Accelerating Business Deductions

- If you use the accrual method, you can accelerate deductions into 2016 by analyzing your business accounts receivable and writing off those receivables that are totally or partially worthless. By identifying specific bad debts, you should be entitled to a deduction. You may be able to complete this process after year-end if the write-off is reflected in the 2016 year-end financial statements. For non-business bad debts (such as uncollectible loans), the debts must be wholly worthless to be deductible, and will probably only be deductible as a capital loss.
- In general, if you are paying a bonus to employees, you may accrue that liability and deduct that amount if all the events are satisfied that fix that liability even though you pay the bonus next year, and you do not have a unilateral right to cancel the bonus at any time prior to payment. Generally, you will accelerate the bonus deduction into 2016 while your employees will report the income in 2017 if they are cash method taxpayers. Furthermore, any compensation arrangement that defers payment will be currently deductible only if paid within 2 ½ months after the employer's year-end.

- If your business qualifies for the domestic production activities deduction (DPAD) for its 2016 tax year, consider whether the 50%-of-W-2 wages limitation on that deduction applies. If it does, consider ways to increase 2016 W-2 income, e.g., by bonuses to owner-shareholders whose compensation is allocable to domestic production gross receipts. Note that the limitation applies to amounts paid with respect to employment in calendar year 2016, even if the business has a fiscal year.
- If you own an interest in a partnership or S corporation, consider whether you need to increase your basis in the entity so you can deduct a loss from it for this year.

These are just some of the year-end steps that can be taken to save taxes. If you have any questions, please do not hesitate to call. We are happy to schedule a meeting with you at your convenience to discuss planning and the requirements outlined above. There is still time to implement these strategies to minimize your 2016 tax liability and plan for 2017.

Sincerely,

Anglin Reichmann Snellgrove & Armstrong P.C.