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2017 INDIVIDUAL TAX PLANNING

We hope that you are looking forward to the Holiday Season. It is hard to believe that it is mid-December and this year is quickly ending. If you've been following the news out of Washington, you probably know that for the first time in decades, tax reform is a real possibility. Given that both the House and the Senate have recently passed similar tax reform bills, albeit with some key differences, it's likely that they will reconcile the differences and send something to the President to sign into law by year's end. Because most of the changes will not take effect until next year and do not lend themselves to year-end planning in such a short time frame, in analyzing how we may reduce your 2017 tax burden, we should start with how the current rules may affect you and then factor in expected changes.

Much of tax planning for the current year depends on what you expect to happen next year. Will there be any major life changes next year, such as a marriage, additional dependents, a change in jobs, or retirement? The year-end tax strategies will also depend on whether you expect your income to go up or down next year or, correspondingly, whether you expect significant changes in your deductions. The following are some of the items we should review when discussing year-end tax planning options that may be relevant to your situation.

MARGINAL TAX RATES FOR 2017

For 2017, the marginal tax brackets are 10%, 15%, 25%, 28%, 33% and 35%. The top tax rate of 39.6 percent applies to incomes over $418,400 (single), $470,700 (married filing jointly and surviving spouse), $235,350 (married filing separately), and $444,550 (heads of households). However, high-income taxpayers are also subject to the 3.8 percent net investment income tax and/or the .9 percent Medicare surtax.

FUNDING RETIREMENT PLANS & CATCH-UP PROVISIONS CONSIDERATIONS

Fully funding your company 401(k) with pre-tax dollars will reduce current year taxes, as well as increase your retirement nest egg. For 2017, the maximum 401(k) contribution that can made with pre-tax earnings is $18,000. For taxpayers 50 or older, that amount increases to $24,000.

If you have a SIMPLE 401(k), the maximum pre-tax contribution for 2017 is $12,500. That amount increases to $15,500 for taxpayers age 50 or older.

If certain requirements are met, contributions to an individual retirement account (IRA) may be deductible. For taxpayers under 50, the maximum contribution amount for 2017 is $5,500. For taxpayers 50 or older but less than age 70 1/2, the maximum contribution amount is $6,500. Contributions exceeding the maximum amount are subject to a 6 percent excise tax. Even if you are not eligible to deduct contributions, contributing after-tax money to an IRA may be advantageous because it will allow you to later convert that traditional IRA to a Roth IRA. Qualified withdrawals from a Roth IRA, including earnings, are free of tax, while earnings on a traditional IRA are taxable when withdrawn.

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However, it's worth noting that the House Bill repeals the special rule that would allow you to convert a traditional IRA to a Roth IRA, and also repeals a rule that would allow you to convert a Roth IRA to a traditional IRA. On the other hand, the Senate Bill only repeals the special rule permitting recharacterization of a Roth IRA as traditional IRA. Either provision, if passed, would be effective for tax years beginning after 2017.

If you already have a traditional IRA, we should evaluate whether it is appropriate to convert it to a Roth IRA this year. You'll have to pay tax on the amount converted as ordinary income, but subsequent earnings will be free of tax. If you have a traditional 401(k), 403(b), or 457 plans that include after-tax contributions, you can generally rollover these after-tax amounts to a Roth IRA with no tax consequences. A rollover of a SIMPLE or SEP into a Roth IRA may also be available. As with all tax rules, there are qualifications that apply to these rollovers that we should discuss before you take any actions.

CHARITABLE CONTRIBUTIONS

Most charitable contributions made prior to December 31st will qualify for an itemized deduction in 2017. If you are planning any charitable contributions soon, you may benefit if the contribution is made on or before December 31st.

If you are planning any significant charitable contributions, you may want to consider using highly-appreciated capital gain property instead of cash. In many cases, you will be allowed a charity deduction equal to the “fair market value” of the property without having to pay capital gains tax on the prior appreciation. If you are considering any large gift, we suggest you contact us to determine if this approach will benefit your tax situation.

If you have an unusually high-income year, you may want to consider the use of a donor advised fund for current and future charitable gifting. This approach can be even more advantageous if you have appreciated investments to fund the donor advised fund. Donor advised funds allow you to place multiple years of charitable contributions in a mutual fund platform to be distributed at your discretion while allowing the tax deduction to be claimed in the current year. Let us know if you would like to consider this strategy.

Direct tax-free distributions from IRA's to 501(c)(3) charities continue to be available and should be considered for certain situations.

Taxpayers 70-1/2 years old and older who own an IRA are required to take minimum distributions from that account each year and include those amounts in taxable income. If you are in this category, a special rule allows you to make a charitable contribution directly from your IRA to a charity. This has several benefits. First, since charitable contributions deductions are usually only available to individuals who itemize, individuals who take the standard deduction instead can benefit from this rule. Second, making the contribution directly to a charity counts towards your required minimum distribution but that amount is not included in income. This reduces taxable income as well as your adjusted gross income ("AGI"). A lower AGI is advantageous because it increases your ability to take deductions that you might not otherwise be able to take. For example, medical expenses are only deductible to the extent those expenses exceed 10 percent of your AGI, miscellaneous itemized deductions are limited to the excess of 2 percent of AGI, personal exemptions are phased out once AGI exceeds a certain threshold, and, as AGI increases, more of your social security income is subject to tax. Finally, the 3.8 percent net investment income tax, as discussed below, applies to the extent your AGI exceeds a certain level.

AFFORDABLE HEALTHCARE ACT ("ACA") CONSIDERATIONS

Under Affordable Healthcare Act there is a penalty, known as the "shared responsibility payment," for not having health insurance coverage. You may be liable for this penalty if you or any of member of your household didn't have health insurance for any month in 2017. The penalty is 2.5 percent of your 2017 household income exceeding the filing threshold or $695 per adult, whichever is higher, and $347.50 per uninsured dependent under 18, up to $2,085 total per family. Depending on your income, you may be eligible for an exemption from the penalty.

According to the IRS, if your tax return does not indicate whether or not you and your family had healthcare coverage during the year, your return may not be processed. This is the first year that the IRS is refusing to process returns if this information is omitted from the income tax return.

HEALTHCARE INSURANCE PREMIUM TAX CREDIT

Some taxpayers are allowed a credit for a percent of amounts paid for qualified health insurance coverage. Health Coverage Tax Credit (HCTC) can now be claimed for coverage through 2019. If you received the type of benefits mentioned in 2017, we should determine if you were eligible for the credit and make sure that you receive the tax benefit.

CAPITAL LOSS DEDUCTIONS AND WORTHLESS SECURITIES

Annually you are permitted to deduct up to $3,000 in net capital losses against ordinary income. You are also able to net any capital gains against capital losses prior to applying the $3,000 limitation. The strategy is to review your investment portfolio and recognize up to $3,000 in capital losses in excess of capital gains prior to December 31st. Also, do not overlook any securities that may have become worthless. These investments should also be reported to recognize the capital loss. If you have any near-worthless securities, you may want to consider selling or surrendering the position so that the capital loss can be recognized in 2017. Finally, do not overlook any capital loss carryovers from prior years that can benefit you in 2017.

CAPITAL GAIN RATES CAN BE 0% FOR LIMITED TAXPAYERS

Certain taxpayers that are within the 10% or 15% marginal tax brackets can benefit from a 0% tax rate on long-term capital gains and "qualified dividends". If you fall into this situation, you may want to consider selling your capital gain investments prior to December 31st to benefit from the 0% tax rate.

CAPITAL GAIN RATES CAN BE 20% FOR HIGH INCOME TAXPAYERS

Certain taxpayer's long-term capital gains tax rate is increased from the 15% capital gains tax rate to 20% for taxpayers in the highest 39.6% marginal income tax bracket.

AMERICAN OPPORTUNITY CREDIT AND VIRGINIA EDUCATION SAVINGS PLAN

If you, your spouse, or any dependent incurred qualified education expenses to attend an accredited post-secondary institution (e.g., a college or university), you may be eligible for the American Opportunity Credit. The maximum annual credit is $2,500 per eligible student. Expenses which qualify for the tax credit include tuition and fees required for the enrollment or attendance at an eligible educational institution.

Beginning in 2017, in order to claim an American Opportunity or lifetime learning credit or a deduction for education-related tuition and fees, you must have received a Form 1098-T. The form reports qualified tuition and related expenses received by the educational institution. The information reported on this form will be matched against the information reported to the IRS. If you have educational expenses eligible for the credit or deduction, you should receive Form 1098-T from the educational institution to which you made payments by January 31, 2017. While the form is supposed to report the aggregate amount of payments received by the educational institution, there is a one-year transition period where institutions may report the amount billed for 2017 rather than the amount paid.

Because the form only reports qualified tuition and related expenses, you may see a discrepancy between the amounts you paid and the amounts reported. This is due to the fact that certain expenses, such as fees for room, board, insurance, medical expenses, transportation, etc. are not considered qualified tuition and related expenses and thus are not reported on Form 1098-T.

The 2017 Virginia deduction for contributions to a Virginia 529 plan is $4,000. If you are 70 years old or older, there is no limit on the deduction for contributions. We suggest you review your 2017 contributions to any Virginia 529 plan to be sure you are maximizing your benefits.

DEDUCTION FOR QUALIFIED TUITION AND RELATED EDUCATION EXPENSES

If your modified adjusted gross income ("MAGI") does not exceed a certain amount, 2017 is the last year that you may deduct qualified education expenses paid during the year for yourself, your spouse, or your dependents. You can deduct up to $4,000, $2,000, or $0 of tuition and fees paid, depending on the amount of your modified adjusted gross income (MAGI). The $4,000 limit applies if your MAGI does not exceed $65,000 ($130,000 on a joint return). The $2,000 limit applies if your MAGI exceeds $65,000 ($130,000 on a joint return) but does not exceed $80,000 ($160,000 on a joint return). No deduction is allowed if your MAGI exceeds $80,000 ($160,000 on a joint return).

NET INVESTMENT INCOME TAX CONSIDERATIONS

A 3.8 percent tax applies to certain net investment income of individuals with income above a threshold amount. The threshold amounts are $250,000 (married filing jointly and qualifying widow(er) with dependent child), $200,000 (single and head of household), and $125,000 (married filing separately). In general, investment income includes, but is not limited to: interest, dividends, capital gains, rental and royalty income, non-qualified annuities, and income from businesses involved in trading of financial instruments or commodities. Thus, while the top tax rate for qualified dividend income is generally 20 percent, the top rate on such income increases to 23.8 percent for a taxpayer subject to the net investment income tax ("NIIT").

If it appears you may be subject to the NIIT, the following actions may help avoid the additional tax and we should discuss whether any of these options make sense in light of your financial situation.

(1) Donate or gift appreciated property. As discussed above, by donating appreciated property to a charity, you can avoid recognizing the appreciation for income tax purposes and for net investment income tax purposes. Also, you may gift the property so that the donee can sell it and report the income. In this case, you'll want to gift the property to individuals that have income below the $200,000 (single) or $250,000 (couples) thresholds.

(2) Replace stocks with state and local bonds. Interest on tax-exempt state and local bonds are exempt from the NIIT. In addition, because such interest income is not included in adjusted gross income, it can help keep you below the threshold for which the NIIT applies.

(3) If you are in the real estate business, we should review the criteria for being classified as a real estate professional. If you meet these requirements, your rental income is considered nonpassive and thus escapes the NIIT.

(4) If you intend to sell any appreciated assets, consider whether the sale can be structured as an installment sale so the gain recognition is spread over several years.

(5) Since capital losses can offset capital gains for NIIT purposes, consider whether it makes sense to sell any losing stocks, but keeping in mind the transaction costs associated with selling stocks.

(6) If you have appreciated real property to dispose of and are not considered a real estate professional, a like-kind exchange may be more advantageous. By deferring the gain recognition, you can avoid recognizing income subject to the NIIT.

Because the NIIT does not apply to a trade or business unless (1) the trade or business is a passive activity with respect to the taxpayer, or (2) the trade or business consists of trading financial instruments or commodities, we may want to look at ways in which a venture you are involved with could qualify as a trade or business. However, such classification could have Form 1099 reporting implications whereas personal payments are not reportable.

ADDITIONAL MEDICARE TAXES

An additional Medicare tax of 0.9 percent is imposed on wage compensation, and self-employment income in excess of a threshold amount. The threshold amounts are $250,000 (joint return or surviving spouse), $125,000 (married individual filing a separate return), and $200,000 (all others). However, the threshold amount is reduced (but not below zero) by the amount of the taxpayer's wages. Thus, a single individual who has $145,000 in self-employment income and $130,000 of wages is subject to the .9 percent additional tax on $75,000 of self-employment income ($145,000 - $70,000 (the $200,000 threshold - $130,000 in wages)). No tax deduction is allowed for the additional Medicare tax.

For married couples, employers do not take a spouse's self-employment income or wages into account when calculating Medicare tax withholding for an employee. If you and your spouse will exceed the $250,000 threshold in 2017 and have not made enough tax payments to cover the additional .9 percent tax, you can file Form W-4 with the IRS before year end to have an additional amount deducted from your paycheck to cover the additional .9 percent tax. Otherwise, underpayment of tax penalties may apply.

ALTERNATIVE MINIMUM TAX CONSIDERATIONS

A growing number of taxpayers are subject to the alternative minimum tax (AMT). If it looks like you may be subject to the AMT this year, there are certain strategies we should review to see if they may reduce or eliminate the impact of the AMT in your situation. All taxpayers are eligible for an exemption from the AMT, the amount of which depends on your filing status. For 2017, the exemption amounts for individuals, other than those subject to the kiddie tax, are (1) $84,500 in the case of a joint return or a surviving spouse; (2) $54,300 in the case of an individual who is unmarried and not a surviving spouse; and (3) $42,250 in the case of a married individual filing a separate return. However, these exemptions are phased out by an amount equal to 25 percent of the amount by which your alternative minimum taxable income (AMTI) exceeds: (1) $160,900 in the case of married individuals filing a joint return and surviving spouses; (2) $120,700 in the case of other unmarried individuals; and (3) $80,450 in the case of married individuals filing separate returns.

If you may be subject to the AMT this year, we should discuss what actions can be taken to reduce your exposure. Since the calculation of the AMT begins with adjusted gross income, lowering your adjusted gross income by maximizing contributions to a tax-deferred retirement plan (e.g., 401(k)) or tax-deferred health savings account may be appropriate.

PHASE OUT OF ITEMIZED DEDUCTIONS

Taxpayers with adjusted gross income ("AGI") above a $261,500 (single) and $313,800 (married filing jointly) threshold will lose a portion of their itemized deductions. The phase-out will equal 3% of the amount by which income exceeds these thresholds. The reduction cannot exceed 20% of the itemized deductions.

PHASE OUT OF PERSONAL EXEMPTIONS

Taxpayers with adjusted gross income ("AGI") above a $261,500 (single) and $313,800 (married filing jointly) threshold will lose a portion of their personal exemptions. The personal exemptions will be reduced 2% for each $2,500 (or portion thereof) of income above the threshold.

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FOREIGN BANK ACCOUNT REPORTING

The Internal Revenue Service has been actively pursuing individual who fail to report their holdings in foreign accounts. If you have an interest in a foreign bank account, it must be disclosed; failure to do so carries stiff penalties. You must file a Report of Foreign Bank and Financial Accounts ("FBAR") if: (1) you are a U.S. resident or a person doing business in the United States; (2) you had one or more financial accounts that exceeded $10,000 during the calendar year; (3) the financial account was in a foreign country; and (4) you had a financial interest in the account or signatory or other authority over the foreign financial account. If you are unclear about the requirements or think they could possibly apply to you, please let me know.

The deadline for filing a FBAR is April 15. However, a six-month extension is available. If you are abroad, the due date is automatically extended until June 15, with an additional four-month extension available until October 15.

DEDUCTION FOR MORTGAGE INSURANCE PREMIUMS

If you paid qualified mortgage insurance, it is deductible as qualified residence interest. The insurance must have been paid in connection with acquisition debt for a qualified residence. No deduction is available for amounts paid or accrued after December 31, 2017. Further, this deduction is eliminated for taxpayers with high income.

GIFTING APPRECIATING INVESTMENTS

You can reap a large tax benefit by donating appreciated assets, such as stock, to a charity. Generally, the higher the appreciated value of an asset, the bigger the potential value of the tax benefit. Donating appreciated assets not only entitles you to a charitable contribution deduction but you also avoid the capital gains tax that would otherwise be due if you sold the stock. For example, if you own stock with a fair market value of $1,000 that was purchased for $250 and the capital gains tax rate is 20%, the capital gains tax would be $150 ($750 gain x 20%). If you donate that stock instead of selling it, and are in the 28% tax bracket, you get a tax savings of $280 ($1,000 FMV x 28%). You also save $150 in capital gains tax that you would otherwise pay if you sold the stock. Thus, the after-tax cost of the gift of appreciated stock is $570 ($1,000 - $280 - $150) compared to the after tax cost of a donation of $1,000 cash which would be $720 ($1,000 - $280). However, it should be noted that a tax deduction for appreciated property is limited to 50 percent of your adjusted gross income.

Additionally, if you have children, particularly college age kids, we should consider if there is any income that can be shifted to them so that the tax on the income is paid at the child's tax rate. One strategy is gifting appreciated stock to the child. Where a child has earned income and is taxed at the bottom two income brackets, capital gains generated on the stock sale are taxed at 0 percent, instead of the 15 percent or more that the parent would pay. However, if the child has little or no earned income, the kiddie tax could be a factor. In this case, you will want to limit the child's unearned income to $2,100 or less for 2017 in order to avoid having your top tax rate apply to the child's income.

MISCELLANEOUS TAX CONSIDERATIONS
Other transactions to consider include:

(1) the deduction by elementary and secondary school teachers of up to $250 of qualified expenses they paid during the year ($500 on a joint return if both spouses were eligible educators) and expand the deduction to include expenses in connection with the professional development activities of an educator;

(2) The exclusion from income of imputed income from the discharge of acquisition indebtedness for a primary principal residence;

(3) The equalization of the tax exclusion for employer-paid mass transit and parking benefits and expands such exclusion to include bike sharing programs;

(4) The tax deduction for state and local general sales taxes in lieu of state and local income taxes.

VIRGINIA LIVABLE HOME CREDIT
Virginia has increased the credit to 50% of the cost limited to $5,000 in tax credits for certain qualified home improvements designed to improve the accessibility of your home.

VIRGINIA CONSERVATION EASEMENT CREDITS
Virginia taxpayers have an opportunity to purchase tax credits at a discount of 87 - 92 cents to the dollar. These credits can be applied to your total Virginia income tax liability up to $20,000 for each taxpayer. We are available to assist you to determine the amount of credits that should be considered.

VIRGINIA NEIGHBORHOOD ASSISTANCE ("NAP") CREDITS
The purpose of the Virginia Neighborhood Assistance Act is to encourage individuals, trusts and businesses to make donations to pre-approved 501(c)(3) non-profit organizations, known as Virginia Neighborhood Assistance Programs (“NAPs”). Tax credits are available to individuals and married couples donating cash or securities directly to NAPs. The minimum amount to be donated is $500 by an individual or married couple. Any eligible charitable organization must have applied to participate in the Virginia Neighborhood Assistance Program to be allocated credits. If you contribute to a participating charitable organization, you must fill out the Contribution Notification Form and submit it to the charitable organization. The charitable organization will then notify the Virginia Department of Taxation that you have been transferred credits and you will be issued a tax credit certificate, which will need to be attached to your Virginia tax return.

Only a limited amount of credits are available for each qualifying charity each year. You might not receive a credit if the organization has already distributed its share of credits. If you receive more credits than you can use this year, the credits may be carried forward for up to five years.

For more information about the Virginia Neighborhood Assistance Act and for a full list of qualifying charitable organizations, go to the Department of Social Services website at http://www.dss.virginia.gov/community/nap.cgi. Please contact our office if you have questions on the Virginia NAP.

VIRGINIA EDUCATION IMPROVEMENT SCHOLARSHIP TAX CREDITS

Individuals or businesses can make monetary or marketable securities donations to approved foundations. The donations will be used to provide scholarships to low-income new students of non-public schools. Donors will then receive a Virginia tax credit for 65% of the donation, in addition to the normal charitable donation deductions on federal and state taxes for taxpayers that itemized their deductions. This credit requires a preauthorization process to qualify for tax credits.

OTHER STEPS TO CONSIDER BEFORE THE END OF THE YEAR

The following are some of the additional actions to review before year-end to see if they make sense in your situation. The focus should not be entirely on tax savings. These strategies should be adopted only if they make sense in the context of your total financial picture.

TIMING OF INCOME RECOGNITION

In considering the following year-end tax strategies, you should factor in the reduced individual income tax rates and the decreases in individual deductions that are predicted to occur beginning next year if tax legislation is signed into law at the end of 2017.

Accelerating Income into 2017. Depending on your projected income for 2018, it may make sense to accelerate income into 2017 if you expect 2018 income to be significantly higher because of increased income or substantially decreased deductions. Options for accelerating income include: (1) harvesting gains from your investment portfolio, keeping in mind the 3.8 percent NIIT; (2) converting a retirement account into a Roth IRA and recognizing the conversion income this year; (3) taking IRA distributions this year rather than next year; (4) if you are self-employed and have clients with receivables on hand, try to get them to pay before year end; and (5) settling any outstanding lawsuits or insurance claims that will generate income this year.

Deferring Income into 2018. If it looks like you may have a significant decrease in income next year, either from a reduction in income or an increase in deductions, it may make sense to defer income into 2018 or later years. Some options for deferring income include: (1) if you are due a year-end bonus, having your employer pay the bonus in January 2018; (2) if you are considering selling assets that will generate a gain, postponing the sale until 2018; (3) if you are considering exercising stock options, delaying the exercise of those options; (4) if you are planning on selling appreciated property, consider an installment sale with larger payments being received in 2018; and (5) consider parking investments in deferred annuities.

Deferring Deductions into 2018. If you anticipate a substantial increase in taxable income next year, it may be advantageous to push deductions into 2018 by: (1) postponing year-end charitable contributions, property tax payments, and medical and dental expense payments, to the extent deductions are available for such payments, until next year; and (2) postponing the sale of any loss-generating property.

Accelerating Deductions into 2017. If you expect a decrease in income next year, accelerating deductions into the current year can offset the higher income this year. Some options include: (1) prepaying property taxes in December; (2) making January mortgage payment in December; (3) if you owe state income taxes, making up any shortfall in December rather than waiting until your state income tax return is due; (4) since medical expenses are deductible only to the extent they exceed 10 percent of adjusted gross income, bunching large medical bills not covered by insurance into 2017 to help overcome this threshold; (5) making any large charitable contributions in 2017, rather than 2018; (6) selling some or all loss stocks; and (7) if you qualify for a health savings account, setting one up and making the maximum contribution allowable.

TIMING OF DEDUCTIBLE EXPENSES

If you anticipate a substantial increase in taxable income, it may be advantageous to push deductions into 2017 by: (1) postponing year-end charitable contributions, property tax payments, and medical and dental expense payments, to the extent deductions are available for such payments, until next year; and (2) postponing the sale of any loss-generating property.

If you expect a decrease in income next year, accelerating deductions into the current year can offset the higher income this year. Some options include: (1) prepaying property taxes in December; (2) making January mortgage payment in December; (3) if you owe state income taxes, making up any shortfall in December rather than waiting until the return is due; (4) since medical expenses are deductible only to the extent they exceed 10 percent (7.5 percent for individuals age 65 before the end of the year) of adjusted gross income, bunching large medical bills not covered by insurance into one year to help overcome this threshold; (5) making any large charitable contributions in 2017, rather than 2017; (6) selling some or all loss stocks; and (7) if you qualify for a health savings account, setting one up and making the maximum contribution allowable.

ESTATE TAX EXEMPTION AND RATES

The maximum estate tax rate is 40%. A $5,430,000 exemption amount is available for estates of individuals dying in 2017. The exemption amount is indexed for inflation each year.

GIFT TAX

The Act unified the estate exemption amount with the gift tax. In other words, the $5,430,000 exemption amount is available to reduce the gift tax during life and any unused amount of the $5,430,000 exemption is available to be used for estate tax purposes at death. The annual exclusion for 2017 is $14,000 and it if an election is made to split the gifts among spouses, the annual exclusion per recipient increases to $28,000.

LIFE EVENTS
Certain life events can also affect your tax situation. If you got married or divorced, had a birth or death in the family, lost or changed jobs, or retired during the year, we need to discuss the tax implications of these events.

MISCELLANEOUS ITEMS
Finally, these are some additional miscellaneous items to consider:

(1) Spend any remaining health flexible spending account balances before year end (unless your employer allows you to go until March 15, 2018, in which case you'll have until then). You should check with your employer to see if they give employees the optional grace period to March 15.

(2) If you rent out a vacation home, we should review at the number of days it was used for business versus pleasure to see if there are ways to maximize tax savings with respect to that property.

PENDING TAX REFORM
Congress may enact tax reform by year's end, with the most changes scheduled to take effect in 2018 and later. The most significant changes for individuals will likely include reductions in income tax rates, doubling the standard deduction, eliminating of the personal exemptions, and repealing or sharply curtailing many personal deductions; notably the one for state and local taxes.

We are hesitant to speculate about the final details of the changes, as significant differences between the House and Senate proposals are in the process of being resolved. It does seem highly likely that some personal deductions are going to be repealed, and that we'll see a downward drift in tax rates. So, there may be a stronger than usual incentive to accelerate deductions into the current year and defer income into next year. Whether those are smart moves depends on several factors, such as whether you'll be subject to Alternative Minimum Tax ("AMT") this year, and what direction you see your income heading next year. Below are some strategies that you may want to consider as 2017 winds to a close:

(1) Deferring income into 2018 to benefit from lower tax rates
(2) Determining the timing of retirement plan distributions and potential Roth-IRA conversions
(3) Recognize any current capital losses in 2017 as the deduction may be more beneficial in 2017 than in 2018 with reduced tax rates
(4) Accelerating charitable deductions into 2017 if the expanded standard deduction will affect the decision to report itemized deductions
(5) Pay any state and local tax liabilities by December 31, 2017 as state and local income tax may not be deductible in 2018
(6) Bunch medical costs including health insurance and long-term care premiums into 2017 in case the deduction is either eliminated or the standard deduction replaces the itemized deductions

(7) Miscellaneous deductions including employee business expenses, tax preparation fees, legal fees and financial planning fees may not be deductible in 2018. Consider paying these in 2017

UNCERTAIN TAX LANDSCAPE

We will keep you updated with any changes that occur. You can also refer to our website www.caecpa.com that contains all of the tax law updates as they occur.

Let us know if you have any questions, or if you require any clarification of any of these subjects. We wish you a successful conclusion to 2017 and a Happy Holiday Season.

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