2017

YEAR-END YEAR-ROUND

Tax Planning Guide

GSG Gorfine Schiller Gardyn
Certified Public Accountants and Consultants

2017 Year-End Tax Planning Guide

Year-end tax planning always has its share of complexity, but in 2017 taxpayers are facing a distinct set of challenges due to the uncertainty surrounding proposed tax reform legislation. Following the Trump administration's September release of a "unified framework" for tax reform, there has been discussion of reducing the federal income tax rate while restricting a number of deductions.

With many of the plan's key details and dates expected to remain unresolved into December, it is difficult to anticipate what the future will bring. To gather as much information as possible about potential changes, we chose to delay the release of this tax guide, and we urge you to obtain professional advice before acting upon any of its guidance.

In a year when it has been especially difficult to pinpoint specific year-end tax planning strategies, we look forward to helping you assess your situation, weigh your options, and prepare for a variety of possible scenarios. As your trusted advisor, you can rely on us to keep you abreast of the latest tax changes and help you prepare for their impact.

WHAT WE KNOW SO FAR

How Trump's tax plan could change federal income tax brackets for

single filers

2017		Proposed Under Trump's Tax Plan	
10%	$0 – $9,325	12%	$0 – $45,000
15%	$9,326 – $37,950		
25%	$37,951 – $91,900	25%	$45,001 – $200,000
28%	$91,901 – $191,650		
33%	$191,651 – $416,700		
35%	$416,701 – $418,400	35%	$200,001 – $500,000
39.6%	$418,401 or more	39.60%	$500,001 or more
Standard deduction:	$6,350	Standard deduction:	$12,200
Personal exemption:	$4,050	Personal exemption:	Eliminated

How Trump's tax plan could change federal income tax brackets for

joint filers

2017		Proposed Under Trump's Tax Plan	
10%	$0 – $18,650	12%	$0 – $45,000
15%	$18,651 – $75,900		
25%	$75,901 – $153,100	25%	$45,001 – $200,000
28%	$153,101 – $233,350		
33%	$233,351 – $416,700		
35%	$416,701 – $470,700	35%	$200,001 – $500,000
39.6%	$470,701 or more	39.60%	$500,001 or more
Standard deduction:	$12,700	Standard deduction:	$24,400
Personal exemption:	$8,100	Personal exemption:	Eliminated

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STRATEGIES FOR INDIVIDUAL TAXPAYERS

A good way to start your year-end tax planning is by identifying any changes in your personal situation that may affect your taxes. A change in your marital status, a move, a job change, starting a business, retirement, a new dependent or the loss of one — any of these life events would likely have a tax impact. Similarly, you'll want to be alert to any tax law changes that may present planning opportunities.

2017 RATE RUNDOWN

You'll find the 2017 federal income tax rate schedules on page 4. Although the taxable income *brackets* are somewhat higher than they were in 2016 due to IRS inflation adjustments, the tax *rates* are the same as they were in 2016.

Your marginal rate. For planning purposes, focus on your marginal tax rate, the rate that applies to your last dollar of taxable income. Knowing your marginal rate can help you gauge the impact of various planning strategies. For example, an additional $1,000 deduction would save $350 in taxes for a taxpayer in the 35% tax bracket.

Personal exemptions. You'll also want to figure in any effect from the tax law's phaseout of personal exemptions. When it applies, this provision effectively increases the tax rates of higher income taxpayers.

Here's how the phaseout works. Each personal exemption you can claim in full (for yourself, your spouse, and your dependents) will reduce your 2017 taxable income by $4,050. However, once your adjusted gross income (AGI) exceeds a specified amount (based on your filing status), your deduction for personal exemptions begins to decrease. With AGI at or over the top of the applicable AGI range, you receive no deduction for personal exemptions. The 2017 AGI phaseout ranges are:

Single
$261,500 – $384,000

Head of Household
$287,650 – $410,150

Married Filing Jointly
$313,800 – $436,300

Married Filing Separately
$156,900 – $218,150

Itemized deduction limitation. When AGI exceeds the lower end of the ranges listed above (e.g., $261,500 for a single taxpayer), higher income taxpayers also lose the full benefit of certain itemized deductions, such as state and local taxes and home mortgage interest. At most, 80% of those deductions can be lost. Note, however, that the limitation on itemized deductions does *not* apply to medical expenses, investment interest, nonbusiness casualty and theft losses, and gambling losses.

Additional 0.9% Medicare tax. This additional Medicare tax on employment and self-employment earnings sometimes catches taxpayers by surprise. While the regular Medicare tax applies to all earnings, the 0.9% tax applies only to earnings over $200,000 (single/head of household), $250,000 (married filing jointly), or $125,000 (married filing separately). The additional Medicare tax was introduced by the Affordable Care Act.

Net investment income tax. Another Affordable Care Act provision, the 3.8% net investment income tax affects higher income investors with modified AGI over $200,000 (single/head of household), $250,000 (married filing jointly), or $125,000 (married filing separately). You can find more details regarding the net investment income tax and some tips for lessening your exposure to it on page 9.

Alternative minimum tax (AMT). The basic purpose of the AMT system is to ensure that taxpayers who use various deductions, credits, and exclusions to reduce their regular tax liability still pay a minimum amount of tax. The table on page 5 shows the AMT rates and exemption amounts. A tax projection can tell you whether you are likely to owe the AMT for 2017. If you are, there may be strategies you can consider to mitigate the impact of the tax.

TAX LAW CHANGES FOR 2017

MEDICAL EXPENSES

- The threshold for claiming medical expenses as an itemized deduction is 10% of adjusted gross income for taxpayers 65 and older for 2017. Previously, the threshold had been 7.5% of adjusted gross income for taxpayers 65 and older, and 10% for all other taxpayers.
- There are changes to tax-deferred Medical Savings Accounts for the self-employed. The maximum deductible amount for out-of-pocket expenses for self-only coverage, and the maximum for family coverage will increase to $4,450 and $8,250, respectively. The deductible limit on a plan with family coverage will increase to $6,750, and the minimum deductible amount for annual family coverage will increase to $4,500.

ENERGY

- Energy efficiency tax credits related to windows, doors, roofing, insulation, HVAC systems, geothermal heat pumps, and wind turbines are no longer available in 2017 and going forward. However, solar energy systems will still qualify for a credit, for both existing homes and new construction. The credit available is 30% of the cost of the system for 2017– 2019, 26% for 2020, and 22% for 2021.

EDUCATION

- The tuition and fees deduction has expired and has not yet been renewed for 2017. Unless action is taken by Congress, the deduction will not be available for 2017. For tax years ending 12/31/2016 or earlier, taxpayers were allowed a deduction of up to $4,000 of tuition and fees. The American Opportunity Tax Credit and the Lifetime Learning Credit are still available and unchanged from 2016.The student loan interest deduction has also been preserved.

HEALTH CARE

- The 2017 shared responsibility payment (the penalty for not having health insurance) is the higher of the following two amounts: 2.5% of household income up to a maximum of the total yearly premium for the national average price of a Bronze plan sold through the Marketplace, or a per-person fee of $695 per adult and $347.50 per child under 18 up to a maximum of $2,085.

TIMING MATTERS

Timing plays a big role in year-end tax planning. Typically, you'll want to look for ways to delay the taxation of income until a later tax year and accelerate deductible expenses into the current tax year. Such strategies can lower this year's taxable income — and the amount of income taxes currently payable.

However, if you expect to be in a higher tax bracket next year, consider doing the reverse: Move taxable income into this year and push deductible expenses into next year when the deductions potentially will save you more tax dollars. Before implementing this plan, though, consider the time value of money. By paying taxes earlier, you give up the opportunity to invest those funds in the interim.

Here are some potential ways to defer taxable income:

- Increase pretax salary deferrals to an employer's 401(k), 403(b), governmental 457, or SIMPLE retirement plan. You'll find the 2017 deferral limits in the table on page 6.
- See if you can receive a year-end bonus or commission payment in early 2018 instead of in 2017.

Deductible expenses you might be able to accelerate include:

- Charitable contributions. If you mail your check or charge your donation to your credit card by year-end, it will count as a 2017 contribution.
- State income tax payments. Ask your employer to withhold more tax from your remaining 2017 paychecks.

2017 INCOME TAX RATES

TAXABLE INCOME BRACKETS

RATE (%)	SINGLE	HEAD OF HOUSEHOLD	MARRIED FILING JOINTLY (and surviving spouses)	MARRIED FILING SEPARATELY
10	$0–$9,325	$0–$13,350	$0–$18,650	$0–$9,325
15	$9,326–$37,950	$13,351–$50,800	$18,651–$75,900	$9,326–$37,950
25	$37,951–$91,900	$50,801–$131,200	$75,901–$153,100	$37,951–$76,550
28	$91,901–$191,650	$131,201–$212,500	$153,101–$233,350	$76,551–$116,675
33	$191,651–$416,700	$212,501–$416,700	$233,351–$416,700	$116,676–$208,350
35	$416,701–$418,400	$416,701–$444,550	$416,701–$470,700	$208,351–$235,350
39.6	Over $418,401	Over $444,551	Over $470,700	Over $235,350

Alternatively, make your January estimated state and local income tax payment before year-end and pay enough to cover any projected balance due.

- Real estate taxes. Amounts paid in 2016 would generally be deductible on your 2017 return even if the taxes were for 2017.

Consider the AMT. Before accelerating tax payments, though, check to make sure that doing so will not create an AMT problem. For example, claiming a large deduction for state and local taxes could trigger the AMT. Other potential AMT triggers include:

- The exercise of incentive stock options
- A higher-than-average number of dependency exemptions
- Significant amounts of tax-exempt interest from "private activity" municipal bonds
- A large deduction for unreimbursed employee business expenses and miscellaneous expenses
- Interest on a mortgage not used to buy, build, or improve your home

2017 AMT RATES

TAXABLE AMT INCOME	RATE
$1–187,800	26%
Over $187,800	28%

THE 2017 AMT EXEMPTION AMOUNTS ARE:

For unmarried filers	$54,300
For married couples filing jointly	$84,500
For married individuals filing separately	$42,250

The exemptions are phased out for higher income taxpayers.

Maximize above-the-line deductions. Certain expenses are deductible from your gross income in arriving at your AGI. These "above-the-line" deductions (adjustments) are available whether you claim the standard deduction or itemize your deductions. And they're especially valuable because they work double-time by both reducing your AGI *and* helping you preserve tax breaks you might otherwise lose because your AGI is too high.

Making the most of above-the-line deductions will help lower your tax bill. Here are some potential deductions to keep in mind:

- Contributions to a traditional IRA
- Student loan interest (up to $2,500)
- Tuition for higher education (up to $4,000)
- Health savings account (HSA) contributions (see page 10)
- Employment-related moving expenses
- Alimony payments
- Educator expenses (up to $250)
- Penalties on the early withdrawal of savings

Self-employed individuals may also claim an above-the-line deduction for half of their self-employment tax (other than the 0.9% additional tax), certain retirement account contributions, and qualifying medical insurance premiums. Since minimizing AGI gives you a variety of tax advantages, you won't want to overlook any above-the-line deductions you are entitled to claim.

Add up medical and miscellaneous expenses. Gaining an itemized deduction for unreimbursed medical expenses or miscellaneous expenses can be difficult. The reason: The tax law allows a deduction for such expenses only in the amount that exceeds a percentage of AGI.

In 2017, medical expenses are generally deductible only to the extent that your total unreimbursed expenses exceed 10% of your AGI (7.5% of AGI if your spouse or you are age 65 or over as of the end of 2017). Starting in 2018, the 10%-of-AGI deduction floor will apply to *all* taxpayers. Similarly, unreimbursed employee business expenses and miscellaneous expenses are deductible only in the amount that exceeds 2% of your AGI.

- To the extent possible, bunching expenses in one tax year may help you exceed the AGI floor and gain a deduction for a portion of your expenses that year. For example, if you expect your medical expenses to be more than 10% (or 7.5%) of your 2017 AGI, consider scheduling and paying for elective surgery, dental work, and eye appointments in late 2017.
- Conversely, if a 2017 deduction doesn't seem likely, you might delay these expenses until after year-end in hopes of gaining a 2018 deduction for them.

RETIREMENT PLANNING

No matter where you are in your career, accumulating assets for your future retirement is probably one of your biggest financial goals. Maximizing your contributions to tax-favored retirement plans can help you pursue that goal while also saving you money on your taxes.

Take advantage of employer plans. With an employer-sponsored retirement savings plan — such as a 401(k), 403(b), or SIMPLE plan — your contributions and any earnings on those contributions generally won't be taxed until you begin receiving funds from the plan.

Some employers also allow employees to make after-tax Roth contributions to their 401(k) or 403(b) retirement savings plans. Roth contributions are subject to current income taxes, but once in the plan, the contributions potentially grow tax deferred. Withdrawals of both Roth contributions *and* related earnings are not taxed if certain requirements are met.

Fund an IRA. You may make an IRA contribution for the 2017 tax year as late as the April 2018 filing deadline for your federal income tax return. There are no income restrictions on making tax-deductible contributions to a traditional IRA *unless* you or your spouse actively participates in an employer-sponsored retirement plan. With active plan participation, the 2017 deduction gradually phases out once AGI exceeds:

- $62,000 (single/head of household), $99,000 (married filing jointly), or $0 (married filing separately) or
- $186,000 (married filing jointly) for a contribution to the IRA of a married person who does not actively participate in an employer plan but whose spouse does.

HOW MUCH CAN YOU CONTRIBUTE FOR 2017?

To maximize your retirement savings, contribute as much as possible each year. The 2017 limits are shown below. Note, however, that employer plans may or may not permit participants who have reached age 50 to contribute the higher amounts indicated. Additional contribution limits could apply.

TYPE OF PLAN	UNDER AGE 50	AGE 50 OR OLDER
401(k), 403(b), 457, SEP*	$18,000	$24,000
SIMPLE IRA	$12,500	$15,500
Traditional/Roth IRA**	$5,500	$6,500

* Only SEP plans established before 1997 may allow employees to make pretax contributions.

** IRA contributions may not exceed earned income.

With a Roth IRA, contributions aren't tax deductible and won't be taxed on withdrawal. You also may withdraw account earnings tax free after you've had a Roth IRA for at least five tax years and reached age 59½ (or in certain other circumstances).

Your eligibility to make Roth IRA contributions hinges on your income. In 2017, the allowable Roth IRA contribution phases out as AGI rises from $118,000 to $133,000 for unmarried filers, $186,000 to $196,000 for joint filers, and $0 to $10,000 for married persons filing separately.

If a Roth IRA is otherwise attractive to you but your income is too high to contribute, you may be in a position to convert a traditional IRA to a Roth IRA. There are no income restrictions on conversions. Consider any such conversion carefully, however. A Roth conversion is a taxable event that may trigger a large tax bill.

- Assuming you want to move forward with a Roth IRA conversion, you may save taxes by completing the transaction during a year in which you expect to be in a relatively low tax bracket (because, for example, you have a large loss or your income from other sources is lower than usual).
- Converting when the market value of your IRA investments has fallen can save you tax dollars.
- Consider spreading the conversion over several tax years to prevent the extra conversion income from pushing you into a higher bracket.

Take required minimum distributions (RMDs). Don't overlook any minimum distributions you are required to take from traditional IRAs and employer-sponsored retirement plans for 2017 Generally, you must start taking annual minimum distributions after you reach age 70½. The additional excise tax for failure to take an RMD is a steep 50% of the amount you should have withdrawn.

Your first RMD generally will be due by April 1 of the year after the year you reach age 70½, and another RMD will be due by December 31 of that same year. RMDs for subsequent years must be taken by year-end. (You typically can delay distributions from your employer's retirement plan until retirement if you are not a 5% owner of the company. Check with your plan administrator for information on your plan's rules.)

- Weigh the tax deferral benefit of waiting until right before the April 1 deadline to take your first RMD against the potential for being pushed into a higher tax bracket by taking two RMDs in one tax year.

Minimize tax on Social Security. If you are a Social Security recipient, monitor your year-end transactions carefully. When "provisional income" exceeds specified levels (see table below), a portion of Social Security retirement benefits becomes taxable. For this purpose, provisional income is defined as modified AGI, which includes otherwise tax-exempt municipal bond interest, plus half of your Social Security benefits.

- If realizing additional income in 2017 would trigger additional tax on your Social Security benefits, consider whether you're able to defer that income until early 2018 .

WILL YOUR SOCIAL SECURITY BENEFITS BE TAXABLE?

UP TO THIS PERCENTAGE OF YOUR BENEFITS WILL BE TAXED

ON A JOINT RETURN* If your provisional income is:		ON A SINGLE OR HEAD-OF-HOUSEHOLD RETURN If your provisional income is:
$32,000 or less	0%	$25,000 or less
Between $32,000 and $44,000	50%	Between $25,000 and $34,000
Over $44,000	85%	Over $34,000

* The provisional income threshold is zero for married persons filing separately who do not live apart from their spouses for the entire year.

YOUR INVESTMENTS

For tax purposes, not all income is created equal. Capital gains and dividends, for instance, are taxed differently — and often more favorably — than ordinary income. Following are some planning strategies you can use to secure more favorable tax treatment for your investment income.

Plan investment gains and losses. As part of your year-end tax planning, review investments that you hold outside of tax-deferred accounts to see if there may be opportunities to save taxes.

- If you have already realized (or expect to realize) a large capital gain this year, consider whether you are holding securities in your portfolio that you want to sell because they haven't performed up to your expectations. Realizing capital losses before the end of the year would allow you to use those losses to offset your capital gain.

CAPITAL GAIN/ DIVIDEND RATES

LONG-TERM GAIN AND QUALIFIED DIVIDENDS

20%	Most investments (if ordinary tax rate is 39.6%)
15%	Most investments (if ordinary tax rate is 25% to 35%)
0%	Most investments (if ordinary tax rate is 10% or 15%)
28%	Collectibles gain
25%	Real estate gain (amount up to prior allowable depreciation; rest of gain is taxed the same as gain on most investments)

SHORT-TERM GAIN AND NONQUALIFIED DIVIDENDS

as high as 39.6%	(taxed at ordinary income tax rates)

Certain higher income taxpayers are also subject to the additional 3.8% net investment income tax.

Capital losses are generally deductible in full against capital gains, and any capital losses in excess of capital gains may offset up to $3,000 of ordinary income ($1,500 if you are married filing separately). You may carry forward any excess capital losses you aren't able to deduct for use in later tax years, subject to the same limitations.

- If you have incurred capital losses in 2017, it may be a good time to take profits on appreciated investments you no longer want to hold. But be sure to weigh all relevant factors before you make any investment decisions.

Avoid wash sales. Exercise caution before selling securities to realize a tax loss with the thought of buying back in shortly afterward. Under the tax law's "wash-sale" rules, no capital loss deduction is allowed in the year of sale if you buy substantially identical securities within 30 days after (or before) the sale. Instead, the disallowed loss becomes part of your cost basis in the newly acquired securities. This delays the tax benefit from the capital loss until you sell the replacement securities.

- To avoid a wash sale and take advantage of a tax loss on a stock you still want to own, consider "doubling up" on your position by buying additional shares at least 31 days in advance of your planned sale. Then sell your original securities at a loss. But pay attention to any dividend payments during the wash-sale period. If they are reinvested in additional shares, you may lose your ability to deduct part of your original loss.
- Alternatively, you could sell the securities on which you have a paper loss and replace them with shares of another company in the same industry having similar prospects.

Watch holding periods. The length of time you hold an investment before selling it (your "holding period") determines if a capital gain or loss is short term or long term. The short-term holding period is one year or less. The long-term holding period is more than one year. Ideally, any taxable net capital gain you have will be long term so that you'll benefit from the preferential tax rates (see table to the left).

You can see from the same table that "qualified" dividends are taxed at the favorable capital gain rate. Most regular dividends paid by U.S. corporations (and certain foreign corporations) will be considered qualified if you hold the stock for a minimum number of days:

- More than 60 days during the 121-day period that begins 60 days before the stock's ex-dividend date (common stock)
- More than 90 days during the 181-day period that begins 90 days before the stock's ex-dividend date (preferred stock)

A stock's ex-dividend date is the date on which the stock begins trading without rights to the most recently declared dividend.

Donate appreciated securities. When you contribute appreciated securities that you've held for more than one year to a qualified charitable organization, you may deduct the full fair market value of the donated securities as an itemized deduction (subject to certain restrictions and limitations).

- Making a charitable gift of appreciated securities can help you avoid the capital gains tax that might otherwise be due if you sold the securities first and then donated the sales proceeds.

However, because you can't deduct a capital loss when you donate securities that are worth less than your cost basis, you'll generally obtain a better tax result by selling the securities first, realizing the capital loss, and then donating the sales proceeds.

Monitor fund distributions. Many mutual funds make taxable distributions of capital gains to fund investors during the last couple of months of the year. All fund investors as of the date of record set by the fund for the distribution receive their proportionate share of the capital gains.

- If you are considering buying into a fund near year-end, check to see if the fund anticipates making a capital gain distribution. To avoid receiving additional taxable income this year, consider waiting to invest until after the record date for the distribution.

Minimize net investment income tax. If your modified AGI is high enough for the 3.8% net investment income tax to be a factor, you will want to consider strategies to lessen your exposure to the tax. The tax is calculated by multiplying 3.8% by *the lesser of*: (1) your net investment income or (2) the excess of your modified AGI over the relevant threshold for your filing status. As mentioned earlier, the modified AGI thresholds are $250,000 (married filing jointly), $125,000 (married filing separately), and $200,000 (single/head of household).

Net investment income can include income from interest, dividends, annuities, royalties, rents, net capital gain, and passive trade or business activities. It does not include any amount that is subject to self-employment tax, amounts distributed from retirement plans, exempt interest on state and local bonds, or gain on the sale of a principal residence to the extent the gain is excludable from income.

- Increasing the number of hours you participate in an entity's affairs to meet the tax law's "material participation" standards can convert passive income into active income that is not subject to the 3.8% tax.
- Consider structuring a sale of appreciated real estate held as an investment as an installment sale. With an installment sale, you spread your gain — and the taxes on that gain — over more than one tax year. (The installment sale method cannot be used for sales of publicly traded securities or for certain sales to related parties, and it is not available to dealers.)

MORE PLANNING TIPS

Following are some additional points to keep in mind in your tax planning.

Deduct home equity interest. Interest paid on a home equity loan or line of credit is potentially deductible regardless of how you use the loan proceeds. The debt must be secured by your primary or second residence and may not exceed $100,000.

- To gain an interest deduction, you might consider borrowing against your home equity to finance a major purchase, such as a car you'll use for personal purposes. Similarly, consider paying off existing consumer debt with the proceeds of a home equity loan. But exercise caution, since your home would act as security for the loan.

Don't overlook mortgage points. You may deduct mortgage "points" (prepaid interest) in full in the year you purchase or build your main home. Alternatively, you may spread out the deduction of purchase points over the life of the loan.

Points paid when refinancing a mortgage are generally deductible over the life of the loan.

Avoid an underpayment penalty. Paying enough income tax during the year is essential if you want to avoid an underpayment penalty. Generally, the amount of federal income tax withheld from your pay and/or your quarterly estimated tax payments for 2017 should at least equal the lower of: (1) 90% of your 2017 tax liability or (2) 100% of your 2016 tax liability. Substitute 110% for 100% if your 2016 AGI exceeded $150,000 ($75,000 on a married-separate return). However, if the tax shown on your 2017 return (after withholding tax paid) is less than $1,000, an underpayment penalty won't apply.

- When you are checking your tax payments, be sure to take into account any potential liability you may have for the 0.9% additional Medicare tax (discussed on page 3).
- If you missed an estimated payment earlier this year or didn't pay enough, consider having more income tax withheld from your or your spouse's paychecks before year-end. Because the IRS applies withheld tax pro rata over the full tax year, this strategy can be helpful in reducing previous underpayments of estimated tax.

Contribute to an HSA. You may make up to a full year's worth of deductible health savings account (HSA) contributions for 2017 at any time before your tax return's due date (not considering extensions), provided you meet the contribution eligibility rules. Among other requirements, you must have coverage under a qualifying high deductible health plan. The maximum deductible HSA contribution for 2017 is $3,400 with self-only coverage or $6,750 with family coverage. If you are 55 or older and not enrolled in Medicare, you may make an additional $1,000 contribution.

Spend FSA funds. Do you have a flexible spending account (FSA) through your employer? Generally, you'll forfeit any amount remaining in your FSA at year-end or the end of the plan's grace period, if available. However, a health FSA may allow employees to carry over up to $500 to the next year in lieu of the optional grace period. If you have money in an FSA, you'll want to know what the timing rules are for your plan and use up your money within the allotted time.

OPPORTUNITIES FOR BUSINESS OWNERS

For a business owner, tax planning is a year-round activity. But the last several months of the year may present specific opportunities to minimize taxes on business income.

REVIEW EARNINGS AND TAXES

The structure of your business — C corporation, S corporation, partnership, limited liability company (LLC), or sole proprietorship — determines how your business income is taxed. Generally, the income, losses, deductions, and credits of an S corporation, partnership, or LLC are passed through to the owners to be reported on their tax returns. Sole proprietors also report business income and deductions on their personal tax returns.

Lower corporate taxes. A regular C corporation pays tax on its income at the corporate tax rates (see table on page 12). Corporate income is potentially subject to two layers of income tax — once at the corporate level and again if distributed to shareholders as dividends. Corporate earnings paid out to you as compensation are included in your taxable income but are deductible by the corporation. Thus, they are taxable only once — to you.

Before deciding to pay out earnings as compensation, though, remember that qualified dividends are taxed at a maximum rate of 20%. Your compensation will be taxed at rates as high as 39.6%, plus you'll owe FICA tax, which may include the additional 0.9% Medicare tax discussed on page 3.

- If you expect your closely held C corporation to have a profitable year, consider whether it makes business (as well as tax) sense to pay bonuses or make a tax-deductible profit sharing contribution this year to minimize corporate taxable income.
- Bear in mind that the IRS can assess a 20% accumulated earnings tax penalty on corporations that accumulate excessive earnings and profits. Generally, a corporation can accumulate up to $250,000 of earnings ($150,000 in the case of certain service corporations) without penalty.
- If your corporation has a reasonable business purpose for accumulating additional earnings, document why the additional money is needed in the corporate minutes. Some possible reasons: the purchase of new equipment or the construction of new facilities.

Consider the AMT. Although small corporations that meet a gross receipts test are exempt from the AMT, the tax can be an issue for larger corporations. When it applies, the corporate AMT rate is 20%, and the exemption amount is $40,000 (subject to an income-based phaseout with alternative minimum taxable income between $150,000 and $310,000).

CORPORATE TAX RATES

If your company is a C corporation other than a personal service corporation,* you can estimate your corporation's regular 2017 federal income taxes using this table.

IF TAXABLE INCOME IS OVER	BUT NOT OVER	YOUR TAX IS	OF THE AMOUNT OVER
$0	$50,000	15%	$0
$50,000	$75,000	$7,500 + 25%	$50,000
$75,000	$100,000	$13,750 + 34%	$75,000
$100,000	$335,000	$22,250 + 39%	$100,000
$335,000	$10,000,000	$113,900 + 34%	$335,000
$10,000,000	$15,000,000	$3,400,000 + 35%	$10,000,000
$15,000,000	$18,333,333	$5,150,000 + 38%	$15,000,000
$18,333,333		a flat 35%	

* Qualified personal service corporations pay a flat 35% tax.

TIMING STRATEGIES

The tax accounting method your business uses determines when income must be recognized for tax purposes and when expenses are deductible. Cash-method taxpayers report income when it is actually or constructively received and generally deduct expenses when payments are actually disbursed. Accrual-method taxpayers report income in the year their right to it becomes fixed and the income amount can be determined with reasonable accuracy. Deductions are taken when all events have occurred creating the liability and when the amounts can be determined with reasonable accuracy.

- If your business uses the cash method, you might defer income by delaying billing notices so that payment won't be received until early next year.
- As an accrual-method taxpayer, you might defer income by delaying shipping products or providing services until the beginning of your 2018 tax year.
- Also look into opportunities to defer certain advance payments received for services and the sale of goods. (Requirements apply.)

Time bonus payments. If your company intends to pay employee bonuses for 2017, consider the timing of those payments.

- As a cash-method business, your company may want to pay bonuses before the end of the year to gain a 2017 deduction for the expense.
- You have a little more flexibility if your business uses the accrual method. A 2017 deduction will be available for bonus payments made to *unrelated* employees within 2½ months after year-end provided the liability to pay the bonuses is both fixed and determinable by the end of the year.

Use losses to your tax advantage. No business owner welcomes a net operating loss (NOL). However, if it looks like your company will show a loss this year, use it to your best advantage. An NOL generally can be carried back two years. Doing so may secure your business a refund of income taxes paid for those years. Unused NOLs may be carried forward to offset future taxable income for as long as 20 years. A special election not to use the carryback period is also available.

Businesses can deduct other losses as well, including:

- Casualty and theft losses (including natural disaster losses)
- Capital losses
- Losses on the sale of business assets

Deduct bad debts. Bad debts represent another potential deduction your business should consider if it extends credit to customers. A deduction is available for any debt that is wholly or partially "worthless," assuming your company has already included the amount in income. (Businesses that use the cash method of accounting can't write off uncollectible amounts as bad debts because they don't recognize sales revenue until it is received.)

- Review accounts receivable reports before year-end to identify uncollectible amounts that may be written off as bad debts.

ASSET PURCHASES

The PATH Act's provisions regarding tax depreciation and expensing have made it possible for businesses to approach planning for purchases of machinery, equipment, and other fixed assets with more certainty regarding the tax results. Several significant tax breaks are potentially available.

Use Section 179 expensing. A popular provision among small businesses, the Section 179 election allows a business to expense up to $510,000 (for 2017) of eligible asset purchases in the year the assets are placed in service in lieu of depreciating the assets over several years. Eligible Section 179 property includes:

- New and used machinery, equipment, vehicles, and other tangible non-real-estate property
- Computer software purchased off the shelf
- Qualified restaurant property, retail improvements, and leasehold improvements

For 2017, the $510,000 expensing election is reduced (dollar for dollar) once qualifying asset purchases go over a $2,030,000 investment ceiling. (The $510,000/$2,030,000 amounts will be indexed for inflation going forward.) Additionally, the election is limited to taxable income from any of your active trades or businesses.

Deduct bonus depreciation. Your business will also want to consider taking advantage of bonus depreciation (available through 2019). Bonus depreciation allows a business to take an immediate write-off for a percentage of an asset's cost. Unlike with Section 179 expensing, the business must be the first taxpayer to use the asset.

The bonus depreciation percentage is 50% for assets acquired from January 1, 2015, through December 31, 2017. It phases down to 40% in 2018 and 30% in 2019. Only certain types of depreciable property can qualify, including tangible property with a recovery period of 20 years or fewer under the Modified Accelerated Cost Recovery System (MACRS).

- Because bonus depreciation isn't limited to taxable income, the deduction can contribute to or create an NOL. This might be a tax advantage for a C corporation that can carry back the loss and secure a tax refund. Similarly, an NOL generated by a flow-through entity, such as an S corporation or a partnership, can provide a tax benefit to the owners, who may be able to deduct their allocable share of the loss on their personal returns.
- If your business intends to elect Section 179 expensing and bonus depreciation for only some of its asset acquisitions and regular depreciation for others, consider using the Section 179 election for the assets with the longest lives.

Expense lower cost purchases. In addition to the Section 179 and bonus depreciation elections, also consider the relatively new election that is available for "de minimis" asset

MACRS DEPRECIATION ASSET CLASSES

PROPERTY CLASS	ASSETS INCLUDED
3-year	Tractor units for over-the-road use
5-year	Automobiles, trucks, computers and peripheral equipment
7-year	Office furniture and fixtures, farm machinery and equipment
10-year	Vessels, barges, tugs
15-year	Certain land improvements; qualified leasehold and retail improvements; qualified restaurant property
20-year	Farm buildings (other than certain single-purpose structures)
Residential Rental Property (27.5-year)	Apartment buildings, single-family rental properties
Nonresidential Real Property (39-year)	Office buildings, stores, warehouses

The lists of property included in each class aren't all-inclusive.

purchases if certain requirements are met. When this election is in place, your business may simply expense costs that fall below a specified level to the extent that the amounts are deducted for financial accounting purposes or in keeping with your books and records.

The de minimis threshold can be up to $5,000 (per invoice or per item as substantiated on the invoice) if your business has financial statements audited by an independent certified public accountant (CPA) or issued to a state or federal agency. Effective for the 2017 tax year, the threshold is $2,500 for firms without such financial statements.

Consider a safe harbor election. The IRS has issued complex, comprehensive regulations that in part address the difference between building improvements that must be capitalized and building repair and maintenance costs that are currently deductible. Eligible small businesses can avoid the distinction — and currently deduct the costs of repairs, maintenance, *and* improvements to a building — by taking advantage of an IRS "safe harbor" election. To be eligible for the election:

- The property owner's average annual gross receipts for the three prior tax years must be $10 million or less;
- The building's cost or other unadjusted basis must be less than $1 million; and
- The annual total cost of repairs, maintenance, or improvements to the building may not exceed the lesser of (1) $10,000 or (2) 2% of the building's unadjusted basis.

This is an annual election that may be made on a building-by-building basis.

S CORPORATION STRATEGIES

Is your business organized as an S corporation? If so, you and any other individual shareholders will pay taxes on your proportionate share of corporate income at rates as high as 39.6%. As a result, steps taken to lower your S corporation's business income before year-end can help reduce your income tax burden.

Review shareholder compensation. Although employee salaries and bonuses (and the related employment taxes) generally are deductible corporate expenses, it's usually best for S corporation shareholder/employees to draw only "reasonable" compensation from their companies. The reason: Any additional, nonwage distributions of corporate earnings escape Social Security, Medicare, and self-employment taxes.

- Review the amount you are taking as salary from your S corporation to make sure it is reasonable for the services you perform for the company, but don't overpay yourself. If desired, the company can distribute additional earnings to you and any other shareholders free of employment taxes.

Know your basis. Special tax planning may be called for if an S corporation expects to generate an NOL for the year. Very generally, a shareholder's loss deduction is limited to the shareholder's investment in the company, as reflected in a figure known as "adjusted basis." The adjusted basis figure changes each year to account for any money flowing between the company and the shareholder — distributions, capital contributions, loans, and loan repayments — as well as for the shareholder's allocated share of corporate income or loss.

- If you anticipate that your S corporation will show a loss this year, check to see if you have enough basis to deduct it. If not, either loaning the company money or making an additional capital contribution before year-end can increase your basis and potentially save you taxes by allowing you to deduct the loss individually.

ADDITIONAL PLANNING TIPS

Below are more strategies that can prove useful in lowering business taxes.

Identify domestic production activities. For 2017, eligible businesses may continue to deduct 9% of their qualified production activities income (or their taxable income as calculated without regard to the deduction, if that amount is lower). This deduction is not limited to domestic manufacturing businesses; businesses engaged in construction, engineering, or architectural activities also might be entitled to it. The deduction is capped at 50% of W-2 wages allocable to domestic production gross receipts.

- If it appears that the 50%-of-wages restriction will limit your firm's 2017 deduction, consider paying year-end bonuses to company owners whose compensation can be allocated to domestic production gross receipts.

Deduct retirement plan contributions. Maximizing tax-deductible contributions to a retirement plan for yourself and any eligible employees can lower your business taxes and help you accumulate funds for your own retirement. The table to the right shows the 2017 contribution limits for different types of plans.

Know the health care reform rules. Although the Affordable Care Act has been in place for several years, 2015 was the first year the law's employer shared responsibility provisions and the related information reporting requirements applied. If your business is large enough to be affected by these rules (i.e., it is an "applicable large employer"), you must offer minimum essential health care coverage that is "affordable" and that provides "minimum value" to your full-time employees (and their dependents) or potentially be required to make a shared responsibility payment to the IRS. You'll also have reporting responsibilities. Generally, a business that had an average of at least 50 full-time employees (including full-time-equivalent employees) during 2016 is considered an applicable large employer for 2017.

Deduct start-up expenditures. If you are involved in a new business venture in 2017, you may elect to deduct up to $5,000 of your business start-up expenditures, such as travel expenses incurred in lining up prospective distributors or suppliers and advertising costs paid or incurred before the new business began operating. (Remaining costs are deducted ratably over a 180-month period.) To claim the deduction in 2017, your new business must be up and running by year-end.

Use an accountable plan. Following the IRS's accountable plan rules for reimbursing employees for their travel, entertainment, and other business expenses can save your business payroll taxes. With an accountable plan, employees provide their employer with an adequate accounting of their business-related expenses and return any excess amounts within a reasonable period. Amounts reimbursed under an accountable plan are not included in employees' wages.

Hire your child. Paying your child for doing legitimate work for your business can be a tax saver if you are self-employed. You may deduct reasonable wages paid to your child as a business expense. The income will be taxed to your child, but the standard deduction can shield as much as $6,350 from tax (in 2017). Any earnings over that amount will be taxed at your child's rate — which is probably much lower than yours is. Wages you pay your child will be exempt from FICA taxes until your child turns 18, assuming your business is unincorporated.

Take credit. Eligible businesses can use tax credits to lower their tax liabilities. The table on page 16 shows some of the tax credits that are available for 2017.

2017 RETIREMENT PLAN CONTRIBUTIONS

PLAN TYPE	MAXIMUM ADDITION TO A PLAN PARTICIPANT'S ACCOUNT
401(k)*	Lesser of $54,000 or 100% of compensation
Profit sharing	Lesser of $54,000 or 100% of compensation
SEP-IRA	Lesser of $54,000 or 25% of compensation
SIMPLE IRA	Up to $12,500 of employee salary deferrals plus employer contribution (3% match or 2% nonelective contribution)

* See page 6 for the applicable limits on employee salary deferrals.

Some plans allow participants age 50 and older to make additional catch-up contributions, and these would not be subject to the limits set forth above.

SEE IF YOUR BUSINESS QUALIFIES FOR TAX CREDITS

Investment

10% (or more) of the costs of (1) qualified rehabilitation of a building first placed in service before 1936 and certified historic structures (regardless of when placed in service) or (2) installation of solar, geothermal, or combined heat and power system property

Employer-provided child care

25% of expenses to buy, build, rehabilitate, or expand property that will be used as part of an employer's child care facility plus 10% of the amount paid under a contract to provide child care resource and referral services to employees, up to a maximum credit of $150,000 a year

FICA tip

Amount of employer's FICA taxes paid on employee tips in excess of the amount treated as wages in satisfaction of minimum wage requirements (food and beverage establishments only)

Small employer pension plan start-up costs

50% of administrative and retirement-related education expenses for the first three plan years, up to a maximum credit of $500 a year

Research

Generally, 20% of the amount by which qualified research expenses exceed a base amount

Employer wage differential

20% up to $20,000 of wage differential payments paid for each employee called to active military service

Work opportunity

For hiring members of targeted groups — generally, 40% of up to $6,000 of first-year wages paid (per employee)

Small employer health insurance

Up to 50% of employer contributions for employee health insurance (available for two consecutive years only)

Disabled access

50% of eligible access expenditures over $250 and not more than $10,250 (eligible small businesses only)

Note that this list of credits isn't all-inclusive. Various requirements apply.

TALK WITH US

Now may not be the most convenient time for tax planning, but it can be one of the most rewarding. By beginning your year-end planning as soon as possible, you'll have more time to accomplish your tax-saving goals.

As skilled professionals, we have the knowledge and experience to help you with your planning needs. Please contact us for more information about any of our services.

The general information provided in this publication is not intended to be nor should it be treated as tax, legal, investment, accounting, or other professional advice. Before making any decision or taking any action, you should consult a qualified professional advisor who has been provided with all pertinent facts relevant to your situation.

GSG
Gorfine Schiller Gardyn
Certified Public Accountants and Consultants