December 2016

It is time once again to begin organizing your financial information in order to prepare your 2016 tax returns.

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.

BASIC NUMBERS YOU NEED TO KNOW
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.

Another important number is your "tax bracket," 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%. 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.

GIFT GIVING
Annual Gift Tax Exclusion: The most commonly used method for tax-free giving is the annual gift tax exclusion, which, for 2016, allows a person to give up to $14,000 to each donee without reducing the giver's estate and lifetime gift tax exclusion amount. A person is not limited as to the number of donees to whom he or she may make such gifts. In addition, because spouses may combine their exclusions in a single gift from either spouse, married givers may double the amount of the exclusion to $28,000 per donee. Qualifying tuition payments and medical payments do not count against this limit.

IRA, RETIREMENT SAVINGS RULES
Traditional IRAs: Individuals who are not active participants in an employer pension plan may make deductible contributions to an IRA. The annual deductible contribution limit for an IRA for 2016 is $5,500. For 2016, a $1,000 "catch-up" contribution is allowed for taxpayers age 50 or older by the close of the taxable year, making the total limit $6,500 for these individuals

IRA Rollovers: As of 2016, taxpayers may make only one IRA-to-IRA rollover per year. (Direct rollovers from trustee to trustee are not affected.)

Spousal IRA: If an individual files a joint return and has less compensation than his or her spouse, the IRA contribution is limited to the lesser of $5,500 for 2016 plus age 50 catch-up contributions ($1,000 for 2016), or the total compensation of both spouses reduced by the other spouse's IRA contributions (traditional and Roth).

Roth IRA: This type of IRA permits nondeductible contributions of up to $5,500 for 2016, but no more than an individual's compensation. Earnings grow tax-free, and distributions are tax-free provided no distributions are made until more than five years after the first contribution and the individual has reached age 59 ½.

Roth IRA Conversion Rule: Funds in a traditional IRA (including SEPs and SIMPLE IRAs), 401(a) qualified retirement plan, 403(b) tax-sheltered annuity or 457 government plan may be rolled over into a Roth IRA. Such a rollover, however, is treated as a taxable event, and you will pay tax on the amount converted.

401(k) Contribution: The 401(k) elective deferral limit is $18,000 for 2016. If your 401(k) plan has been amended to allow for catch-up contributions for 2016 and you will be 50 years old by December 31, 2016, you may contribute an additional $6,000 to your 401(k) account for a total maximum contribution of $24,000.

Required Minimum Distributions: For 2016, taxpayers who are at least 70 ½ must take their required minimum distribution from IRAs or defined contribution plans.

DEFERRING INCOME TO 2017

If you expect your AGI to be higher in 2016 than in 2017, or if you anticipate being in the same or higher tax bracket in 2016, you may benefit by deferring income to 2017.

Delay Billing: If you are self-employed and on the cash-basis, delay year-end billing to clients so that payments will not be received until 2017.

Interest and Dividends: To defer interest income, consider buying short-term bonds or certificates that will not mature until next year.

ACCELERATING INCOME INTO 2016

In limited circumstances, you may benefit by accelerating income into 2016.

DEDUCTION PLANNING

Individual Deductions

Deduction in Year Paid: An expense is only deductible in the year in which it is actually paid. Under this rule, if your tax rate is going to increase in 2017, it is a smart strategy to postpone deductions until 2017.

AGI Limits: For 2016, the overall limitation on itemized deductions applies to taxpayers whose AGI exceeds an "applicable amount." In addition, certain deductions may be claimed only if they exceed a percentage of AGI i.e. medical expenses and miscellaneous itemized deductions.

Standard Deduction Planning: Deduction planning is also affected by the standard deduction. For 2016 returns, the standard deduction is $12,600 for married taxpayers filing jointly, $6,300 for single taxpayers, $9,300 for heads of households and $6,300 for married taxpayers filing separately.

Medical Expenses: For 2016, medical expenses, including amounts paid as health insurance premiums, are deductible only to the extent that they exceed 10% of AGI. Unless extended by Congress, 2016 is the last year the special 7.5% limitation applies for taxpayers age 65 or older.

State and Local Taxes and General Sales Taxes: If you anticipate a state income tax liability for 2017 and plan to make an estimated payment most likely due in January, consider making the payment before the end of 2016.

Charitable Contributions; Consider making your charitable contributions by the end of the year. You can use a credit card to charge donations in 2016 even though you will not pay the bill until 2017. Note, however, for claimed donations of cars, boats and airplanes of more than $500, the amount available as a deduction will significantly depend on what the charity does with the donated property, not just the fair market value of the donated property.

To avoid capital gains, you may want to consider giving appreciated property to charity.

Business Deductions

Equipment Purchases: If you are in business and purchase equipment, you may make a "Section 179 Election", which allows you to expense otherwise depreciable business property. The allowable deduction is $500,000 (with a phase out beginning at $2,010,000).

Bonus Depreciation: Bonus depreciation under 168(k) for assets purchased and placed in service in 2016 is available.

EDUCATION AND CHILD TAX BENEFITS
Child Tax Credit: A tax credit of $1,000 per qualifying child under the age of 17 is available on this year's return. In order to qualify for 2016, the taxpayer must be allowed a dependency deduction for the qualifying child. The credit is phased out at a rate of $50 for each $1,000 (or fraction of $1,000) of modified AGI exceeding the following amounts: $110,000 for married filing jointly; $55,000 for married filing separately, and $75,000 for all other taxpayers. (All are phased out subject to modified AGI levels.)

Education Credits: The American Opportunity Tax Credit is available for qualified tuition and fees paid on behalf of a student who is enrolled on at least a half time basis. The maximum credit is $2,500 (100% on the first $2,000 plus 25% of the next $2,000).

Lifetime Learning credit: the maximum credit for 2016 is $2,000 (20% of qualified tuition and fees up to $10,000). A student need not be enrolled on at least a half-time basis so long as he or she is taking post-secondary classes to acquire or improve job skills.

Coverdell Education Savings Account: The aggregate annual contribution limit to a Coverdell education savings account is $2,000 per designated beneficiary of the account.

Student Loan Interest: You may be eligible for an above-the-line deduction for student loan interest paid on any "qualified education loan." The maximum deduction is $2,500

INVESTMENT PLANNING
Capital gains on property held one year or less are taxed at an individual's ordinary income tax rate.

Capital gains on property held for more than one year are taxed at a maximum rate of 20%.

An additional 3.8% tax is levied on certain unearned income. The tax is levied on the lesser of net investment income or the amount by which modified AGI exceeds certain dollar amounts.

Timing of Sales: You may want to time the sale of assets so as to have offsetting capital losses and gains.

Dividends: Qualifying dividends received in 2016 are subject to rates similar to the capital gains rates.

HEALTH CARE PLANNING
Individual Mandate: Under the 2010 health care reform law, sometimes called Obamacare, in 2015 there is an individual mandate requiring individuals and their dependents to have health insurance that is minimum essential coverage or pay a penalty unless they are exempt from the requirement.

Self-Employed Health Insurance Premiums: Self-employed individuals are allowed to claim 100% of the amount paid during the taxable year for insurance that constitutes medical care for themselves, their spouses and dependents as an above-the-line deduction, without regard to the general 10% of AGI floor.

Health Savings Accounts: A health savings account (HSA) is a trust or custodial account exclusively created for the benefit of the account holder and his or her spouse and dependents, and is subject to rules similar to those applicable to individual retirement arrangements (IRAs).

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.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting me, I can tailor a particular plan that will work best for you.

I will prepare your 2016 Federal and State income tax returns from information that you provide to me. I will not audit or otherwise verify the data you submit, although I may ask for clarification of the information. By submitting your tax data, you represent that, to the best of your knowledge, the information is correct and complete. You are responsible for keeping the necessary records for your deductions, business expenses and business and personal use of any property.

In order to provide me with enough time to adequately review your data and prepare your tax returns, I am requesting that your information be in my office no later than March 10, 2017. Information received after this date may require that your return be placed on extension.

I understand that your loyalty needs to be earned through trust and quality of service, dependability and honesty. Thank you for your support in 2016 and I wish you and your families a peaceful and healthy year ahead.

Very truly yours,

David T. Black, CPA