SCIARABBA WALKER &CO LLP
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Dear Valued Client,

2015 and 2016 have been years of significant change in tax legislation and IRS rules. Implementing year-end tax strategies to take advantage of these changes presents unique challenges and opportunities. Some tax breaks are expiring and some have been made permanent. The final months of the year provide an important last chance to change the course of the year tax-wise before it closes for good.

Taxpayers who review their situation before year end and compare 2015 to 2016 tend to have more tax reduction strategies at their disposal than those who do not. Looking at the differences between the two years can help identify new tax benefits or expose new tax pitfalls that may otherwise be missed. To help you with your 2016 year-end tax planning, we have provided the following brief planning guide with information designed to help you minimize your tax burden.

General Timing Strategies. Taxpayers generally have a better handle on their income and deductions for the entire year as they move closer to the end of the year. Initiating traditional techniques designed to accelerate deductions and delay income or vice versa, depending upon circumstances for the next year, can yield substantial tax savings. Forecasting whether a taxpayer will pay more or less tax in 2017 than in 2016 depends upon many factors, including what deductions, exclusions, and credits will be allowed, and what rates will be in effect. These changes and how quickly they might be enacted will also depend upon our new President and Congress, making tax planning particularly challenging this year. There are several “tried and true” strategies to defer or accelerate income or deductions however, which can be used in your year-end tax planning.

Tax Rate Brackets. The top tax rate bracket for 2016 is 39.6%, which starts at a modified adjusted gross income of $466,950 for joint returns, $441,000 for heads of households, $415,000 for single filers, and $233,475 for married filing separately. If you have reached the threshold for net investment income tax, known as the NIIT, ($250,000 for joint, $125,000 for single, and $200,000 for other filers), an additional 3.8% tax may be assessed on certain types of income for a top combined rate of 43.4%. If you have the option of spreading out your income over 2016–2017 to stay under the top rates or grouping similar categories of net investment income activity, you may be able to lower your tax bill.

Capital Gains and Dividends. Tax rates range from 0% to 20% depending on your ordinary tax rate. Large gains can push you into a higher bracket for both ordinary and capital gains rates.

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You may want to consider selling some lower-performing investments to offset these gains and up to $3,000 of ordinary income. You can always repurchase your investment if it continues to be economically attractive by appropriately timing your repurchase to avoid the wash sale rules.

Deduction Phaseouts. Many deductions are phased out at specific adjusted gross income levels. Some of the items subject to the phaseout include itemized deductions, personal exemptions, education credits, student loan interest, and Roth IRA contributions. You may be able to take full advantage of deductions and reduce your tax liability in one year by moving some income to another year.

Tax Extenders. Each year around this time we wait for Congress to pass a last-minute bill to extend some popular tax credits and deductions. However, thanks to The PATH Act, passed in late 2015, many of these benefits have already been extended or made permanent. To lower your tax liability, you may be able to take advantage of these permanent credits and deductions: American Opportunity Tax Credit (college education credits), teacher's classroom expense deduction, state and local sales tax deduction, exclusion for direct charitable donation of IRA funds (for ages 70.5 or older), and the 100% gain exclusion on qualified small business stock. Some extenders that will expire at the end of 2016 and may be renewed (but are not as of this writing) include the tuition and fees deduction, mortgage insurance premium deduction, and the nonbusiness energy property credit. The timing of tuition payments, purchase of large-ticket items, charitable contributions, and the sale of qualified small business stock is particularly important in order to optimize your tax benefit.

Life Events. Tax savings are not the only consideration when deciding to retire, get married, or have children, but the timing of these events can have a dramatic impact on your tax situation. If you have had any life changes during the year, changes in your withholdings or estimated taxes may be needed. In addition, the timing of two retirement provisions, the minimum distribution requirement and Roth IRA conversion/reconversion, should be carefully considered and planned prior to year-end.

Gift and Estate Taxes. For 2016, the annual gift tax exclusion is $14,000 per donee. You can make tax-free gifts of that amount to an unlimited number of different donees by the end of the year. Spouses can split gifts, so the effective amount parents can give each of their children, for example, is $28,000. Gifts between spouses are always tax free, as long as both are U.S. citizens. The estate tax exemption for 2016 is $5,450,000 for federal and $4,187,500 for NYS. If you think your estate may be approaching or exceeding these limits, good planning can help ease the tax burden for your estate.

Energy Credits. Through the end of 2016, you may be able to claim a credit for 10% of the cost of qualified energy efficiency improvements and residential energy property costs, subject to an overall credit limit of $500. Qualifying improvements include energy-efficient exterior windows, doors, skylights, roofs, and insulation. Qualifying property includes energy-efficient heating and air conditioning systems, water heaters, and biomass stoves. In order to claim the energy credit, the system must be complete and in service by the end of the year—just signing a contract and paying for the work is not sufficient. The credit for 30% of the costs on qualified solar electric and water heaters has been extended through December 31, 2021, giving you additional time to take advantage of these types of energy improvements.

Affordable Care Act. For 2016, the individual shared responsibility payment for those taxpayers without health coverage is the greater of 2.5% of the household income that is above the tax return filing threshold or the individual's flat dollar amount of $695 per adult and $347.50 per child, limited to a family maximum of $2,085. Open enrollment for coverage through the Marketplace has closed for 2016, but some qualifying life events may allow for special enrollment provisions. Taxpayers who are age 65 or older may consider accelerating medical costs into 2016 if they want to itemize deductions since the floor for deductible expenses rises from 7.5% to 10% for these individuals in 2017. A deduction is permitted only in the year in which payment for services rendered is actually made. Participants in health flexible spending arrangements may contribute up to $2,550 in 2016. IRS rules provide for a 2.5-month grace period after the end of the year to incur expenses and request reimbursement. Not all plans offer this grace period however, so participants should check before year end to see whether the grace period applies to them.

These are just a few of the changes in the tax code and some basic strategies you can implement at year end to minimize your tax burden. If you have any questions or would like to discuss specific tax planning strategies for 2016, please call our office to set up an appointment with your accountant.

Sincerely,

Sciarabba Walker & Co., LLP