Dear Valued Client:

As 2017 draws to a close, now is an excellent time to review your current tax planning strategies to ensure they are still meeting your needs and think about developing revised plans for 2018. It's also a good time to take advantage of last-minute planning opportunities that could save you money now and in the coming year. With major tax reform projected by the end of the year, there is significant uncertainty regarding the tax laws. We can plan however, based on what we already know. Here's a look at some of the issues we're recommending you consider as you begin your end-of-year review.

Avoiding Penalties. Assess your financial situation for the year and check year-to-date withholding and estimated payments to determine if withholding should be increased or if any fourth-quarter estimated payments should be made to avoid underpayment penalties at the federal and state levels. Health insurance will again factor into your taxes this year with penalty assessments for lack of a minimum level of coverage for you, your spouse, and your dependents. Penalties for 2017 can be as high as $695 per adult, $347.50 per child under 18, or $2,085 per family.

Reducing Income. Consider contributions to your 401(k), 403(b), or similar employer-based retirement plans, as these contributions are generally excluded from your taxable income. Contributions of up to $18,000 can be made to these plans in 2017, with an additional $6,000 catchup for employees age 50 or older. Review your portfolio of investments and consider offsetting capital gains with losses to avoid higher tax brackets. In 2017, you'll qualify for the 0% capital gains rate if your taxable income is $37,950 or less if you are single, or $75,900 or less if you are married filing jointly. Higher levels of income benefit from the 15% and 20% reduced capital gains rates. Traditional IRA and/or HSA contributions can be made for a direct reduction in gross income. The maximum IRA contribution for single taxpayers in 2017 is $5,500 (with a $1,000 catchup for individuals age 50 and older) while the maximum HSA contribution in 2017 is $3,400 for a single plan and $6,750 for a family plan. Taxpayers who are 70½ or older can make a qualified charitable distribution from an IRA directly to a charity. The annual limit is $100,000, counts toward your required minimum distribution, and is not includible in taxable income.

Increasing Deductions. If you itemize your deductions, consider paying real estate taxes and January mortgage payments in December and/or giving to charity to increase your itemized deductions. The rules for deducting medical and dental expenses have changed, and beginning in 2017, even if you or your spouse is 65 or older you can deduct only those unreimbursed expenses in excess of 10% of your adjusted gross income. Thorough documentation is required to claim deductions, so remember to save your receipts and acknowledgement letters.

Credit Changes. Tax credits are especially valuable because they are dollar-for-dollar reductions in the tax you owe. There have been some changes to certain credits in 2017. The only energy credits still available are those for solar electric property and solar water heating property, both available until December 31, 2021. The amounts allowed for the Child Tax Credit, The American Opportunity Credit (for qualified educational expenses), and the Lifetime Learning Credit (also for qualified education expenses) have not changed, and there have been small increases to the Earned Income Tax Credit. The IRS continues to scrutinize these credits with much tighter verification requirements. Maintaining adequate documentation to substantiate each credit is crucial.

Gift and Estate Taxes. For 2017, you can gift up to $14,000 per person without needing to file a gift tax return. This amount increases to $15,000 in 2018. If the value of your estate, including prior taxable gifts, is nearing the $5,490,000 federal exemption or the $5,250,000 New York State exemption, you may want to consider reducing the value of your estate through excludable gifts or other estate planning techniques. Due to recently issued IRS guidance, the ability to exclude more of an estate from the estate tax is now available for certain taxpayers through the portability election, an election which allows an unused exemption amount to be transferred to a decedent's surviving spouse.

Tax Brackets and AMT. The top tax rate for 2017 is again 39.6%. 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, unchanged), an additional 3.8% tax may be assessed on certain types of income for a top combined rate of 43.4%. Spreading your income out over 2017–2018 to stay under the top rates may lower your tax bill. Since many deductions are also phased out at specific adjusted gross income levels (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. Since tax rates are expected to decrease for many taxpayers in 2018, it may make sense to delay income and accelerate the deduction of expenses in order to maximize the anticipated change in tax rates. The alternative minimum tax (AMT) continues to apply to many taxpayers, requiring the add-back of certain non-taxable income and deductions taken under the regular tax system. Income acceleration or delay can help minimize your exposure to AMT.

Required Minimum Distributions. A required minimum distribution is the minimum amount an individual must withdraw from his or her IRA, SEP IRA, SIMPLE IRA, or retirement plan account each year. Generally, withdrawals must begin once you reach age 70½. Required minimum distributions from an employer-provided plan can be delayed until April 1 of the year after an individual retires. However, if an employee is a more than 5% owner of the company that sponsors the plan, distributions must start after age 70½ regardless of whether you continue to work. The U.S. Treasury has issued final regulations that allow IRA and qualified plan participants to enter into contracts for annuities that begin at an advanced age. Such account owners may use a certain amount of their account balances to purchase qualifying longevity annuity contracts without having these amounts count for purposes of calculating required minimum distributions.

Identity Theft. With the recent Equifax data breach, tax identity theft remains a concern. Filing your tax return early in the filing season can help prevent someone from filing a false return with your social security number. You may also want to consider a credit monitoring service to alert you to any suspicious activity. If your social security number is compromised and you receive notice from the IRS that you may be a victim of tax-related identity theft, we can help you work through this process. Beware of unsolicited emails or other forms of communication asking for your bank account information or other financial details. The IRS does not contact taxpayers using email, text, or other social media channels, so these types of messages are likely scammers trying to steal your confidential information. Likewise, disregard any robo-calls insisting you call back and settle your tax bill. Your first contact with the IRS will be through official correspondence by mail. The IRS does not demand immediate payment over the phone, threaten to arrest you, demand a credit or debit card number, or request that you use a gift card to pay your taxes.

Tax Reform. The possibility of new tax rates, changes in deductions, exemptions and credits is creating anxiety for all of us. As draft tax reform becomes law over the next few weeks, we will be familiarizing ourselves with these changes and will be available to answer questions and prepare projections to ensure you receive the most favorable outcome possible. Planning ahead can help minimize your tax bill.

You can check all of the inflation adjustments for phase-out thresholds, deductions, and exclusions for 2017 on the IRS website, www.irs.gov. Please give us a call if you have any questions regarding these or other tax items or to set up an appointment to review your specific tax situation.

Sincerely,

Sciarabba Walker & Co, LLP