Tax Planning
2016

For tax planning, the only certainty is uncertainty

The agenda

- Tax planning basics
- Investing
- Real estate
- Business
- Charitable giving
- Family & education
- Retirement
- Estate planning

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Timing income and deductions to your tax advantage

AMT rates and exemptions

- Separate tax system that limits or disallows certain deductions and treats certain income items differently
- Top AMT rate of 28% vs. top regular rate of 39.6%

Tax rate	AMT brackets			
	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
26%	$ 0 – $ 186,300	$ 0 – $ 186,300	$ 0 – $ 186,300	$ 0 – $ 93,150
28%	Over $ 186,300	Over $ 186,300	Over $ 186,300	Over $ 93,150
	AMT exemptions			
	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
Amount	$ 53,900	$ 53,900	$ 83,800	$ 41,900
Phaseout[1]	$ 119,700 – $ 335,300	$ 119,700 – $ 335,300	$ 159,700 – $ 494,900	$ 79,850 – $ 247,450

[1] *The AMT income ranges over which the exemption phases out and only a partial exemption is available. The exemption is completely phased out if AMT income exceeds the top of the applicable range.*

Note: *Consult your tax advisor for AMT rates and exemptions for children subject to the "kiddie tax."*

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2016 individual income tax rates

Tax rate	Regular tax brackets			
	Single	Head of household	Married filing jointly or surviving spouse	Married filing separately
10%	$ 0 – $ 9,275	$ 0 – $ 13,250	$ 0 – $ 18,550	$ 0 – $ 9,275
15%	$ 9,276 – $ 37,650	$ 13,251 – $ 50,400	$ 18,551 – $ 75,300	$ 9,276 – $ 37,650
25%	$ 37,651 – $ 91,150	$ 50,401 – $ 130,150	$ 75,301 – $ 151,900	$ 37,651 – $ 75,950
28%	$ 91,151 – $ 190,150	$ 130,151 – $ 210,800	$ 151,901 – $ 231,450	$ 75,951 – $ 115,725
33%	$ 190,151 – $ 413,350	$ 210,801 – $ 413,350	$ 231,451 – $ 413,350	$ 115,726 – $ 206,675
35%	$ 413,351 – $ 415,050	$ 413,351 – $ 441,000	$ 413,351 – $ 466,950	$ 206,676 – $ 233,475
39.6%	Over $ 415,050	Over $ 441,000	Over $ 466,950	Over $ 233,475

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What you may be able to time

- **Income items**
  - Bonuses
  - Consulting or other self-employment income
  - U.S. Treasury bill income
  - Retirement plan distributions, to the extent they:
    - Won't be subject to early withdrawal penalties
    - Aren't required
- **Deductible expenses**
  - State and local income taxes and property taxes
  - Mortgage interest and margin interest
  - Charitable contributions

WARNING: Prepaid expenses can generally be deducted only in the year to which they apply.

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Limit on itemized deductions

- Reduces certain deductions by 3% of adjusted gross income (AGI) amount that exceeds applicable threshold
  - Doesn't apply to deductions for medical expenses, investment interest, or casualty, theft or wagering losses
- 2016 AGI thresholds for triggering the reduction
  - $259,400 for singles
  - $285,350 for heads of households
  - $311,300 for married filing jointly
  - $155,650 for married filing separately
- See if you can reduce AGI to stay under the threshold
- If not, consider the reduction's impact before timing expenses

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Miscellaneous itemized deductions

- **Many expenses are deductible only to the extent they exceed 2% of AGI**
  - Deductible investment expenses, including advisory fees, custodial fees and publications
  - Professional fees, such as tax planning and preparation, accounting, and certain legal fees
  - Unreimbursed employee business expenses, including travel, meals, entertainment and vehicle costs
- **"Bunching" expenses may allow you to exceed the 2% floor**

WARNING: Don't bunch miscellaneous itemized deductions subject to the 2% floor into a year when you may be subject to the AMT.

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Health-care-related breaks

- If medical expenses exceed 10% of AGI, you can deduct the excess amount
  - 7.5% floor for taxpayers age 65 and older; increases to 10% in 2017
- Eligible expenses may include:
  - Health insurance premiums
  - Long-term care insurance premiums (limits apply)
  - Medical and dental services
  - Prescription drugs
  - Mileage (19 cents per mile driven for health care purposes in 2016)
- Consider bunching nonurgent medical procedures into one year to exceed the floor
- Expenses that are reimbursable by insurance or paid through a tax-advantaged account aren't deductible

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Health Savings Accounts (HSAs)

- HSAs allow pretax or deductible contributions
  - $3,350 for self-only coverage in 2016
  - $6,750 for family coverage in 2016
  - Additional $1,000 for those age 55 or older
- To be eligible, you must be covered by qualified high-deductible health insurance
- Can bear interest or be invested
- Can grow tax-deferred similar to an IRA
- Withdrawals for qualified medical expenses are tax-free
- Carry over balances from year to year

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Flexible Spending Accounts (FSAs)

- Redirect pretax income to employer-sponsored account
  - Employer determines limit
  - Limit cannot exceed $2,550 in 2016
- Plan reimburses employee for qualified medical expenses
- What you don't use by the end of the plan year, you generally lose, but your plan might:
  - Allow you to roll over up to $500 to the next year, or
  - Give you a 2½-month grace period to incur expenses to use up the previous year's contribution
- If you have an HSA, the FSA is limited to funding certain "permitted" expenses

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Employment taxes

- You must pay Social Security and Medicare taxes on earned income
- 12.4% Social Security tax applies only up to the Social Security wage base
  - $118,500 for 2016 (same as 2015) $127,500 for 2017
- *All* earned income is subject to the 2.9% Medicare tax
- Both taxes are split equally between the employee and the employer
- W-2's and 1099's both due to the government 01/31/17

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Self-employment taxes

- You pay both the employee and employer portions of employment taxes
  - Employer portion (6.2% for Social Security tax and 1.45% for Medicare tax) is deductible above the line
- Other above-the-line deductions
  - 100% of health insurance costs up to net self-employment income
  - Contributions to a retirement plan
  - Contributions to an HSA (if eligible)
- Above-the-line deductions are particularly valuable because they reduce AGI and modified AGI (MAGI)

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Additional 0.9% Medicare tax

- Taxpayers must pay this tax on FICA wages and self-employment income exceeding $200,000
  - $250,000 for joint filers
  - $125,000 for separate filers
- Income timing strategies may allow you to avoid or minimize the tax
  - Employees: Bonuses or stock option exercises
  - Self-employed: Purchasing equipment or invoicing customers
  - S corp shareholder-employees: Salary vs. distributions

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Owner-employees: Partnerships and LLCs

- Generally all trade or business income that flows through to you will also be subject to self-employment taxes
  - Even if the income isn't actually distributed to you
- Such income generally isn't subject to employment taxes if you're:
  - A limited partner or
  - An LLC member whose ownership interest is the equivalent of a limited partnership interest
- The extent to which the additional 0.9% Medicare tax or 3.8% net investment income tax (NIIT) will apply depends on the situation

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Owner-employees: Corporations

- Only income received as salary is subject to employment taxes and, if applicable, the 0.9% Medicare tax
- S corporations
  - Reduce employment tax by keeping salary relatively, but not unreasonably, low and increasing distributions of company income(Be Very Careful)
- C corporations
  - You may prefer to take more income as salary as opposed to dividends if the overall tax paid by both the corporation and you would be less

WARNING: To avoid back taxes and penalties, salary must be "reasonable."

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Keep taxes from chipping away at investment returns

The net investment income tax (NIIT)

- Applies to the lesser of net investment income or the amount by which modified adjusted gross income (MAGI) exceeds these thresholds:
  - $200,000 for singles and heads of households
  - $250,000 for married filing jointly
  - $125,000 for married filing separately
- Strategies that can help save or defer income tax on investments can also help avoid or defer NIIT liability
- Strategies that reduce MAGI may allow you to avoid or reduce the tax

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Capital gains tax and timing-No Easy Answers

Assets held	2016[1]
12 months or less (*short term*)	Taxpayer's ordinary-income tax rate
More than 12 months (*long term*)	
■ 39.6% ordinary-income tax bracket	20%
■ 25%, 28%, 33% or 35% ordinary-income tax bracket	15%
■ 10% or 15% ordinary-income tax bracket	0%
Some key exceptions	
Long-term gain on collectibles, such as artwork and antiques	28%
Long-term gain attributable to certain recapture of prior depreciation on real property	25%
Gain on qualified small business (QSB) stock held more than 5 years	
■ Acquired on or before Feb. 17, 2009	14%[2]
■ Acquired after Feb. 17, 2009, and before Sept. 28, 2010	7%[3]
■ Acquired on or after Sept. 28, 2010	0%

[1] *In addition, the 3.8% NIIT applies to net investment income to the extent that modified adjusted gross income (MAGI) exceeds $200,000 (singles and heads of households), $250,000 (married filing jointly) or $125,000 (married filing separately).*

[2] *Effective rate based on 50% exclusion from a 28% rate.*

[3] *Effective rate based on 75% exclusion from a 28% rate.*

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Timing strategies

- Appreciating investments that don't generate current income aren't taxed until sold, so holding on to them:
  - Defers tax
  - Possibly allows you to time sale to your advantage
- If you've cashed in big gains:
  - Look for unrealized losses in your portfolio
  - Sell them to offset gains

WARNING: Substantial net long-term capital gains can trigger the alternative minimum tax (AMT). This undermines the capital gain rate schedules making them meaningless.

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Wash sale rule

- Prevents you from taking a loss on a security if you buy a substantially identical security within 30 days before/after selling the security that created the loss
- Loss recognized only when replacement security is sold
- Getting around the rule:
  - Immediately buy securities of different company in same industry or shares of mutual fund holding similar securities
  - Wait 31 days to repurchase same security
  - Before selling, purchase additional shares equal to number of shares you want to sell at a loss; wait 31 days to sell the original portion
  - Do a bond swap

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Loss carryovers

- Deduct up to $3,000 of losses against ordinary income
  - $1,500 for married taxpayers filing separately
- Carry forward excess losses indefinitely
- Loss carryovers can be a tax-saving tool in future years
- Remember that capital gains distributions from mutual funds also can absorb losses

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The 0% rate

- Applies to long-term gain that would be taxed at 10% or 15% based on the taxpayer's ordinary-income rate
- If you have adult children in these tax brackets, consider transferring appreciated assets to them
  - They can enjoy the 0% rate
  - Even more powerful strategy if you'd be subject to the 3.8% NIIT or the 20% long-term capital gains rate
- Consider any gift tax consequences

WARNING: If the child will be under age 24 on Dec. 31, make sure he or she won't be subject to the "kiddie tax."

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Paying attention to details

- <u>Trade date</u>, not the settlement date, of publicly traded securities determines the year in which you recognize the gain or loss
- Be sure to specifically identify which block of shares is being sold if you:
  - Bought the same security at different times and prices and
  - Want to sell high-tax-basis shares to reduce gain or increase a loss and offset other gains

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Passive activities

- Passive activity income may be subject to the 3.8% NIIT
- Passive activity losses generally are deductible only against income from other passive activities
  - Carry forward disallowed losses to the following year, subject to the same limits
- To avoid passive activity treatment:
  - Participate in a trade or business more than 500 hours/year *or*
  - Demonstrate that your involvement constitutes substantially all of the participation in the activity

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If you don't pass the 500-hour test

- Increase your involvement to exceed 500 hours
  - The activity will no longer be passive
- Group activities together
  - Can allow you to exceed the 500-hour limit
- Look at other activities to increase passive income
  - Limit participation in another activity that's generating income so that you don't meet the 500-hour test
  - Invest in another income-producing trade or business that will be passive to you
- Dispose of the activity
  - Generally allows you to deduct all passive losses — including any loss on disposition (subject to basis and capital loss limitations)

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Income investments

- Qualified dividends are taxed at the favorable long-term capital gains rate
- Interest income taxed at ordinary-income rates of up to 39.6%
- Some dividends subject to ordinary-income rates
  - Real estate investment trusts (REITs)
  - Regulated investment companies (RICs)
  - Money market mutual funds
  - Certain foreign investments

Tax treatment of bond income

- Interest on U.S. government bonds is taxable on federal returns but generally exempt on state and local returns
- Interest on state and local government bonds is excludable on federal returns
  - Tax-equivalent yield = actual yield / (1 – your marginal tax rate)
- Interest on corporate bonds is fully taxable for both state and federal purposes
- Bonds with original issue discount (OID) can create unexpected tax consequences

WARNING: Tax-exempt interest from private-activity municipal bonds can trigger or increase AMT liability.

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Investment interest expense

- Interest on debt used to buy assets held for investment is deductible
- Deduction can't exceed net investment income reduced by other investment expenses
  - Net investment income, for this deduction, doesn't include long-term capital gains or qualified dividend income
  - Disallowed interest is carried forward
- Payments a short seller makes to the stock lender in lieu of dividends may be deductible
- Interest on debt used to buy securities that pay tax-exempt income isn't deductible
- Passive interest expense becomes part of your overall passive activity income or loss, subject to limitations

An uneven real estate recovery calls for planning and foresight

Home-related deductions

- Property tax deduction
  - Pay tax when it's most beneficial
  - Isn't deductible for alternative minimum tax (AMT) purposes
- Mortgage interest deduction
  - Up to combined total of $1 million of mortgage debt
  - Deduct points paid related to principal residence
- Home equity debt interest deduction
  - Debt limit of $100,000 on debt used for any purpose
  - Consider using home equity debt to pay off credit cards or auto loans

WARNING: Interest on home equity debt not used for home improvements could trigger or increase AMT liability.

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Home office deduction

- Deduct portion of expenses allocable to the portion of home used for the office
  - Mortgage interest and property taxes
  - Insurance and utilities
  - Depreciation
- Alternatively, use the simplified option to claim the deduction
- Employee: miscellaneous itemized deduction subject to 2% floor
- Self-employed: deduct from self-employment income; no floor

WARNING: Your home office must be used for your employer's benefit or, if you're self-employed, used as your principal place of business (or used substantially and regularly to conduct business) and that must be the *only* use of the space.

Energy-related credits for homeowners

- **Credit for purchase of residential energy property**
  - Extended through 2016
  - Credit equals 10% of expenditures for qualified energy improvements
  - Lifetime limit: $500
  - Examples of qualifying property:
    - High-efficiency heating and air conditioning systems
    - Insulation
    - Energy-efficient exterior windows and doors
    - High-efficiency water heaters
    - Stoves that burn biomass fuel
- **Solar credit**
  - Extended through 2016
  - Credit equals 30% of the project cost
  - Could be much more significant than $500

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Home rental rules

- **If you rent out principal residence or second home for less than 15 days:**
  - Don't need to report the income
  - Can't deduct expenses directly associated with the rental
- **If you rent out principal residence or second home for 15 days or more:**
  - Must report the income
  - May be able to deduct rental expenses
  - Whether home is classified as rental property for tax purposes affects deduction

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Home sales

- When selling principal residence, you can exclude up to $250,000 ($500,000 for joint filers) of gain
  - To support tax basis, keep thorough records
  - You must meet certain tests, and gain that's allocable to a period of "nonqualified" use generally isn't excludable
- Gain qualifying for exclusion will also be excluded from the 3.8% net investment income tax (NIIT)
- Be careful is home has had a business use.
- Losses on principal residence generally aren't deductible
- Second homes are ineligible for gain exclusion
  - Consider converting to rental use before selling
  - It can then be considered a business asset

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Real estate activity rules

- **Income and losses are typically passive**
  - Passive income may be subject to 3.8% NIIT
  - Passive losses are deductible only against passive income; excess is carried forward
- **Only real estate professionals qualify for "active" tax treatment**
  - Perform more than 50% of personal services in real property trades or businesses in which they materially participate
  - Spend more than 750 hours of service in such businesses
- **Increase hours to meet the test**

WARNING: The IRS has successfully challenged claims of real estate professional status in instances where the taxpayer didn't keep adequate records of time spent.

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Tax-deferral strategies for investment property

- May also enable you to keep income low enough to avoid:
  - 3.8% NIIT
  - 20% long-term capital gains rate
- Installment sale
  - Defer gains by spreading over several years as you receive the proceeds
  - Ordinary gain is recognized in year of sale, even if no cash is received
- Section 1031 exchange
  - Exchange one real estate investment for another
  - Defer paying tax on gain until you sell replacement property

For an enviable financial statement, implement a robust tax plan

Projecting income

- Defer income to next year
  - If using cash method of accounting, defer billing for products or services
  - If using accrual method, delay shipping products or delivering services
- Accelerate deductible expenses into current year
  - If cash-basis taxpayer, make estimated state tax payment before Dec. 31, but beware of the alternative minimum tax (AMT)
  - Charge expenses on a credit card and deduct them in the year charged
- Take the opposite approach

  May save you more tax if it's likely you'll be in a higher bracket next year

- IRS is looking closer for Hobby Losses

WARNING: Don't let tax considerations get in the way of sound business decisions.

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Depreciation

- Assets with a useful life of more than one year generally must be depreciated over a period of years
- Bonus depreciation-not applicable for NYS
  - Extended through 2019
  - 50% through 2017
  - Will drop to 40% in 2018 and 30% in 2019
  - New assets only

Sec. 179 expensing election

- **Allows you to deduct rather than depreciate asset purchases**
- ***New or used* assets qualify, such as:**
  - Equipment
  - Furniture
  - Off-the-shelf computer software

- **The 2016 expensing limit is $500,000**
  - Break begins to phase out dollar-for-dollar when total asset acquisitions for the tax year exceed $2.01 million
  - Can't reduce net income below zero to create a net operating loss

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IRS final regs for tangible property repairs vs. improvements

- Costs incurred on incidental repairs and maintenance can be expensed and immediately deducted
- Costs incurred to acquire, produce or *improve* tangible property must be depreciated
- Make sure you're taking all of the repair and maintenance deductions you're entitled to
- Make sure that proper elections are made on the business and personal returns

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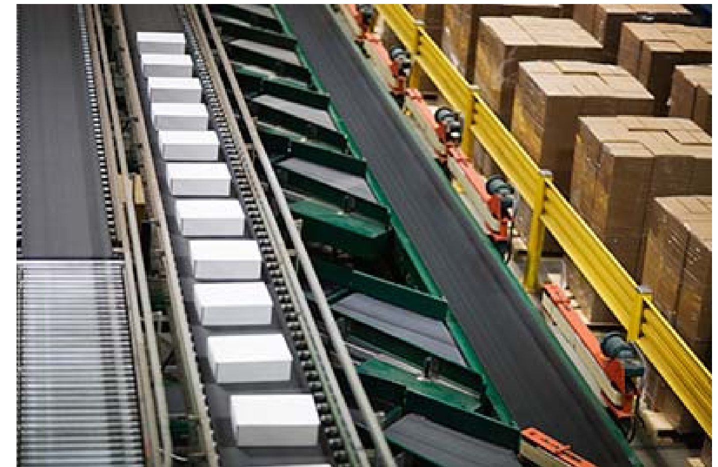
Vehicle-related deductions

- Deduct actual out-of-pocket expenses (fuel, insurance, depreciation, etc.) or mileage
  - 54 cents per business mile driven in 2016
- Purchases of *new or used* vehicles may be eligible for Sec. 179 expensing
- Passenger automobiles are subject to lower limits
- If a vehicle is used for both business and personal purposes, the associated expenses must be allocated between deductible and nondeductible use

WARNING: The depreciation limit is reduced if the business use is less than 100%. If business use is 50% or less, you can't use Sec. 179 expensing or the accelerated regular MACRS; you must use the straight-line method.

Manufacturers’ deduction

- Deductible amount is 9% of the lesser of qualified production activities income or taxable income, limited by W-2 wages paid (No wages. No deducton)
- Available also to businesses engaged in certain *nonmanufacturing* activities, such as:
  - Construction
  - Engineering
  - Architecture
  - Computer software production
  - Agricultural processing



- Can’t be used in determining self-employment income
- Generally can’t reduce net income below zero
- Can be used against the AMT

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Employee benefits

- Qualified deferred compensation plans
  - Pension, profit-sharing, SEP and 401(k) plans, SIMPLEs
  - Employer contributions are deductible; employee contributions can be pretax
- Fringe benefits
  - Aren't included in employee income, yet the employer can deduct any portion of the benefit it pays and typically also avoid payroll tax
  - Examples include employee discounts, group term-life insurance, parking and mass transit / van pooling, and health insurance
- HSAs, FSAs and HRAs
  - Employer contributions are deductible by the employer and not included in employee income
  - Employee contributions (if allowed) are pretax
  - Employee withdrawals for qualified expenses are tax-free

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Tax credits

- Particularly valuable because they reduce taxes dollar-for-dollar
- Four valuable credits made permanent or extended
  1. Research credit
     - Made permanent
     - For increasing research investments
  2. Work Opportunity credit
     - Extended through 2019
     - For hiring from certain disadvantaged groups
  3. New Markets credit
     - Extended though 2019
     - For making qualified equity investments in certain low-income areas
  4. Empowerment Zones
     - Extended through 2016
     - For paying wages in certain urban and rural areas

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Buy-sell agreements

- **Control what happens to the business when a specified event occurs**
  - Retirement
  - Disability
  - Death
- **Among other benefits, a well-drafted agreement:**
  - Provides a ready market for the departing owner's shares
  - Prescribes a method for setting a price for the shares
  - Allows business continuity by preventing disagreements caused by new, unwanted owners
- **Life or disability insurance can be used for funding**
  - Proceeds are generally excluded from the beneficiary's taxable income

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Other exit options

- Succession within the family
  - Sell and/or give interests
  - Now may be a particularly good time to do so
- Management buyout
  - Can provide smooth transition
  - Avoids expense of finding an outside buyer
- Employee stock ownership plan (ESOP)
  - Qualified retirement plan allows employees to be owners
  - Can provide liquidity and even a tax-favored loan
- Selling to an outsider
  - If you find the right buyer, you may be able to sell at a premium
  - First put your business in a sell-ready state

Installment sales

- **Often used when buyer:**
  - Lacks sufficient cash
  - Pays a contingent amount based on the business's performance
- **Also used when seller wants to spread gain over a number of years**
  - Could help avoid triggering the 3.8% net investment income tax
  - Could also help avoid 20% long-term capital gains rate
- **Can backfire on the seller**
  - Must report depreciation recapture in year of sale
  - If tax rates increase, overall tax could be more

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Putting your donations to work in 2016

Cash donations

- Easy to make; the key is to substantiate them
  - Under $250: Gift supported by canceled check, credit card receipt or written communication from charity
  - $250 or over: Gift must be substantiated by the charity by the due date of the return. Must include "no goods or services were given in exchange for the donations" as part of the letter.
- Deduction limits
  - Can't exceed 50% of adjusted gross income (AGI)
    - 30% for gifts to nonoperating private foundations
  - Excess can be carried forward up to five years

WARNING: Charitable deductions are allowed for alternative minimum tax (AMT) purposes, but your tax savings may be less.

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Stock donations

- **Appreciated publicly traded stock held more than one year can be one of the best charitable gifts**
  - Can deduct current fair market value
  - Avoid tax on gain from selling the property
  - Especially beneficial if you face the 3.8% net investment income tax (NIIT) or the top 20% long-term capital gains rate
- **Deduction limits**
  - Can't exceed 30% of AGI
    - 20% for nonoperating private foundations
  - Excess can be carried forward up to five years

WARNING: Don't donate stock worth less than your basis. Instead, sell it so you can deduct the loss. Then donate the proceeds.

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Charitable IRA rollover- now permanent

- Make a direct contribution from your IRA to a qualified charity without owing any income tax
- Contribution can satisfy your IRA required minimum distribution
- Rules and limits
  - You must be age 70½ or older
  - $100,000 annual limit
  - You can't claim a charitable deduction for the contribution
  - Donor-advised funds and supporting organizations aren't eligible recipients
- PATH Act made this break permanent

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Making gifts over time

- **Private foundation gives you significant control over how your donations will be used**
  - Complex rules can make foundations expensive to run
- **Donor-advised fund (DAF) enables you to influence how your donations are spent**
  - Avoids a foundation's tight rules and high expenses

WARNING: To deduct a DAF contribution, you must obtain written acknowledgment from the sponsoring organization that it has exclusive legal control over the assets contributed.

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Tax breaks can make raising kids less costly

Child and adoption credits

- Tax credits reduce your tax bill dollar-for-dollar
- For each child under age 17 at the end of the year, you may be able to claim a $1,000 child credit
- If you adopt in 2016, you may qualify for:
  - Adoption credit
  - Employer adoption assistance program income exclusion
  - Both are $13,460 per eligible child
- Credits phase out for higher-income taxpayers
  - Child credit: $110,000–$130,000 modified adjusted gross income (MAGI) for joint filers
  - Adoption credit: $201,920–$241,920 MAGI for joint filers

Child care expenses

- **Child and dependent care credit**
  - Can apply to a portion of dependent care expenses for children under age 13 or other qualifying dependents
  - Eligible expenses are limited to $3,000 for one dependent, $6,000 for two or more
  - Income-based limits reduce the credit but don't phase it out altogether
- **Flexible Spending Account (FSA)**
  - Contribute up to $5,000 to employer-sponsored child and dependent care FSA
  - Plan pays or reimburses you for expenses
  - You can't use those same expenses to claim a tax credit

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IRAs for teens

- 2016 contribution limit is lesser of $5,500 or 100% of earned income
- Traditional IRA contributions generally are deductible
  - Distributions will be taxed
- Roth IRA contributions are not deductible (Better Idea)
  - Qualified distributions will be tax-free
- Consider giving teens the amount they're eligible to contribute
  - Keep the gift tax in mind
- If teens don't have earned income and you own a business, consider hiring them
  - Must be paid in line with what you'd pay nonfamily employees for the same work

529 plans

- Although contributions aren't deductible for federal purposes, some states offer tax incentives for contributing
- Plan assets grow tax-deferred
- Contribution limits are high, with no income restrictions
- No beneficiary age limit for contributions or distributions
- You control account — even after child is of legal age
- You can make rollovers to another qualifying family member

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Jumpstarting a 529 plan

- To avoid gift taxes on contributions, you must apply your gift tax annual exclusion or lifetime exemption
- A special break for 529 plans allows you to front-load five years' worth of annual exclusion gifts in one year
  - This adds up to $70,000 — or $140,000 if you and your spouse split the gift
  - This is *per beneficiary*
- For grandparents, this can be a powerful estate planning strategy

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The "kiddie tax"

- Applies to children under age 19 and full-time students under age 24
  - Unless the student provides more than half of his or her support from earned income
- Any unearned income beyond $2,100 (for 2016 and 2017) is taxed at the parents' marginal rate
  - Keep this in mind before transferring income-generating assets to children

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Education credits

- **American Opportunity credit-now permanent**
  - For first four years of postsecondary education
  - Up to $2,500 *per student* per year
  - Income-based phaseout may reduce or eliminate your credit
    - Joint filers: $160,000–$180,000 MAGI
- **Lifetime Learning credit**
  - For postsecondary education expenses, even beyond the first four years
  - Up to $2,000 *per tax return* per year
  - Income-based phaseout may reduce or eliminate your credit
    - Joint filers: $111,000–$131,000 MAGI

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Should your child claim an education credit?

- If your dependent child claims one of the credits, you must forgo your dependency exemption for him or her
- Because of the exemption phaseout, you might lose your exemption anyway
  - If your exemption *is* fully phased out, there likely is no downside to your child taking the credit
  - If your exemption *isn't* fully phased out, compare the tax savings your child would receive from the credit with the savings you'd receive from the exemption

WARNING: Expenses paid with tax-free distributions from 529 plans or ESAs can't be used to claim these credits.

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Education deductions

- **Tuition and fees deduction**
  - Deduct above-the-line up to $4,000 of qualified higher education tuition and fees — but only if your income isn't too high
  - Expenses paid with tax-free distributions from 529 plans or ESAs can't be used to claim the deduction.
  - The PATH Act extended it only through 2016
- **Student loan interest deduction**
  - Deduct up to $2,500 of interest *per tax return*
  - Income-based phaseout may reduce or eliminate your deduction
    - Joint filers: $130,000–$160,000 MAGI

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Build tax savings into your retirement planning

How much can you contribute in 2016?

	Regular contribution	Catch-up contribution[1]
Traditional and Roth IRAs	$ 5,500	$ 1,000
401(k)s, 403(b)s, 457s and SARSEPs[2]	$ 18,000	$ 6,000
SIMPLEs	$ 12,500	$ 3,000

[1] *For taxpayers age 50 or older by the end of the tax year.*

[2] *Includes Roth versions where applicable.*

Note: *Other factors may further limit your maximum contribution.*

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Options for business owners and the self-employed

- **Set up a plan that may allow much larger contributions**
  - Especially beneficial if you might be subject to the NIIT
  - If you have employees, they generally must be allowed to participate
- **Profit-sharing plan**
  - Defined contribution plan that allows discretionary employer contributions and flexibility in plan design
  - You can make deductible 2016 contributions as late as the due date of your 2016 return, including extensions
- **Simplified Employee Pension (SEP)**
  - Provides benefits similar to profit-sharing plan but easier to administer
  - You can establish a SEP in *2017* and still make deductible 2016 contributions as late as the due date of your 2016 return, including extensions

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Roth options

- Tax-free distributions, but contributions don't reduce current-year taxable income
- Roth IRAs
  - Income-based phaseout may reduce or eliminate ability to contribute
  - Estate planning advantages are an added benefit
- Roth conversions
  - Turn tax-*deferred* future growth into tax-*free* growth
  - No income-based limit applies
  - Converted amount is taxable in the year of conversion
  - Whether a conversion makes sense depends on many factors

WARNING: A Roth IRA conversion could push you into a higher income tax bracket or trigger the 3.8% NIIT.

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More Roth options

- "Back door" Roth IRA
  - Consider this option if you don't have a traditional IRA
    - Set up traditional account
    - Make a nondeductible contribution
    - Convert the traditional account to a Roth account
  - Only tax due will be on any growth in the account between the time you made the contribution and the date of conversion
- Roth 401(k), 403(b) or 457
  - If plan allows, you can designate some or all of your contributions as Roth
    - Any employer match will be made to a traditional plan
  - No income limits on designating Roth contributions
    - High-income taxpayers can contribute
  - Plans can now more broadly permit employees to convert some or all of existing plan to a Roth plan

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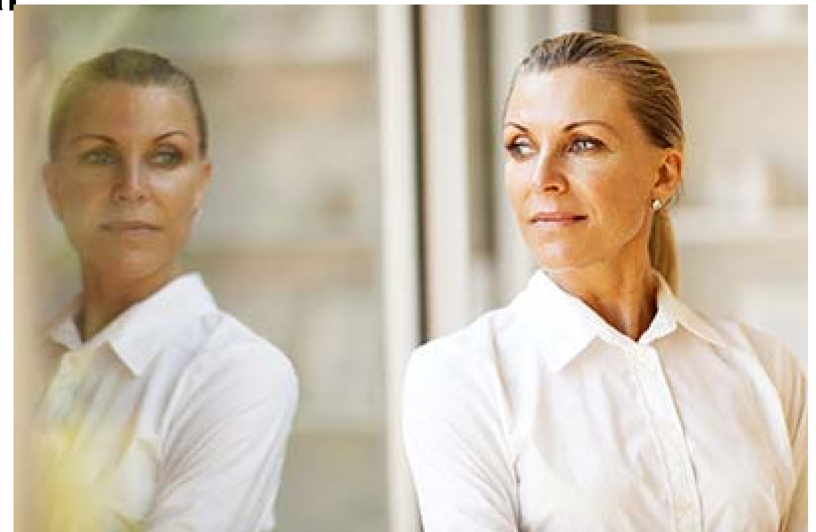
Early withdrawals(Don’t do it)

- A penalty generally applies to “early” withdrawals
  - With a few exceptions, this means before age 59½
  - Penalty is 10%, in addition to any income tax otherwise due
  - Education withdrawals may avoid penalty
- Early withdrawal reduces potential tax-deferred future growth
- Roth IRA withdrawal a slightly better option
- Alternatives:
  - Borrow from your 401(k)
  - Tap taxable investment accounts



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Leaving a job

- Don't take a lump-sum distribution(Don't do it.)
- Consider these options to avoid current income tax and penalties
  - Stay put
    - You may be able to leave your money in your old plan
  - Roll over to new employer's plan
    - Only one plan to keep track of
    - Compare new plan's investment options to the old plan
  - Roll over to an IRA
    - Possibly the best option: IRAs offer many investment choices

WARNING: To avoid potentially negative tax consequences, request a direct rollover from your old plan to your new plan or IRA.

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Required minimum distributions (RMDs)

- **RMDs must generally be taken after age 70½**
  - Penalty equal to 50% of amount you should have withdrawn
  - Avoid RMD rule for Roth 401(k), Roth 403(b) or Roth 457 by rolling funds into Roth IRA
- **Distributions between ages 59½ and 70½ or beyond your RMD after age 70½ could save taxes in low-tax-bracket years, but consider whether they could:**
  - Cause Social Security payments to become taxable
  - Increase income-based Medicare premiums and prescription drug charges
  - Affect other deductions or credits with income-based limits

WARNING: Retirement plan distributions could trigger or increase the 3.8% NIIT.

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Estate planning can secure your legacy

Estate tax

- Rate is 40%
  - Scheduled to remain at that level
- Exemption increased to $5.46 million for 2016
  - $5.49 Million in 2017-Federal $4.187 Million NYS
  - Will continue to be adjusted for inflation annually
- Review your estate plan in light of the changing exemption
  - Avoid unintended tax consequences
  - Make the most of available exemptions
  - Ensure assets will be distributed according to your wishes

Gift tax

- Gift tax follows estate tax exemption and rate
- Any gift tax exemption used during life reduces estate tax exemption available at death
- Exclude certain gifts of up to $14,000 per recipient each year
  - $28,000 per recipient if your spouse splits gift with you or you're giving community property

WARNING: You need to use your 2016 exclusion by Dec. 31. The exclusion doesn't carry over from year to year.

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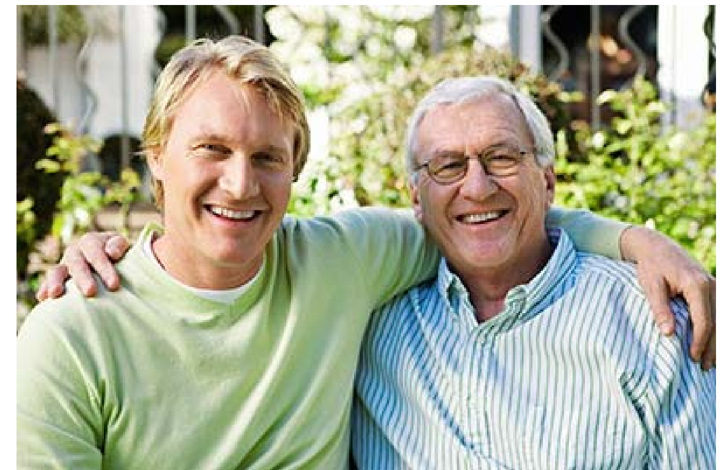
Tax-smart giving: Choose gifts wisely

- To minimize *estate tax*, gift property with the greatest future appreciation potential
- To minimize *your beneficiary's income tax*, gift property that hasn't already appreciated significantly since you've owned it
- To minimize *your own income tax*, don't gift property that's declined in value
  - Sell the property so you can take the tax loss
  - Gift the sale proceeds



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More tax-smart giving ideas

- Plan gifts to grandchildren carefully
  - Annual exclusion gifts are generally exempt from GST tax
  - For gifts that don't qualify for the exclusion to be entirely tax-free, you must apply both your GST tax exemption and gift tax exemption
- Pay tuition and medical expenses
  - Payments won't be treated as a taxable gift if you make them directly to the provider
- Make gifts to charity
  - Donations to qualified charities aren't subject to gift taxes and may provide an income tax deduction

Affordable Care Act

- Insurance companies leaving marketplace
- Limited Selection
- Many individuals opted to pay penalty which reduced pool of monies
- Penalties for 2016
  - $695 per adult
  - $347 per dependent
  - $2,085 maximum per family
  - Or
  - 2.5% of AGI

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Overtime Laws-effective 12/01/16

- Overtime to be paid to employees making $47,476/year or less
- Up from $23,000
- Estimated 4.2 million employees affected

Tax Scams

- Phone/Email Scams-IRS Will Never
  - Call and Demand immediate payment without correspondence being previously sent
  - Threaten to have SWAT descend on your household
  - Initiate contact via email, texting or social media
  - Ask for PINS or Passwords
  - Verify tax information such as social security numbers or bank account numbers
  - Ask for payment in the form of gift cards
  - Ask to collect “Federal Student Tax

- Be Careful Out There

Thank you for attending

Please contact us for assistance:

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