2017 Year-End TAX Planning

Even though the specter of tax reform is looming large and it appears that a bill will be passed before year-end, most of the new provisions will not be effective until 2018, so there is planning to consider to take full advantage of the provisions currently in effect. We begin with potential action items prior to December 31, 2017 in light of the legislation that may be effective for 2018.

Possible Tax Planning Opportunities due to Tax Reform

- Accelerating Payments and Deductions
    a. Itemized Deductions – Pay itemized deductions including medical expenses, property taxes, investment interest expense, tax preparation fees, and other miscellaneous deductions in 2017 as these amounts may be eliminated starting in 2018.
    b. State & Local Income Taxes – Pay Q4 income taxes in 2017 as long as you are not subject to AMT. State and local taxes may be eliminated from itemized deductions starting in 2018 or limited to $10,000 for income and property taxes.
- Income Recognition
    a. Defer ordinary income expected to be taxed at the highest marginal rates into 2018, as both tax proposals will reduce income tax rates in 2018.
- Basis Ordering Rules
    a. Senate plan will require FIFO to be used for all stock sold after December 31, 2017. As a result, consider the following:
        i. Gifting low basis assets to charity
        ii. Harvesting losses
        iii. Selling high-basis assets before yearend
        iv. Gifting stock to charitable trust or family partnership
- Charitable Planning
    a. Stock Donation – Consider donating appreciated stock to charities, since tax rates are projected to be lower next year.
    b. Qualified Charitable Distributions (QCD) – Consider making your RMD from an IRA, a QCD to a charity. The RMD will be excluded from income to the extent it is a QCD.
- Gift Planning
    a. Wait until 2018 to make taxable gifts that would result in gift tax due in 2017.

Year-End Tax Planning Considerations for Individuals

- Individuals who are age 50 or over at the end of 2017 can make annual catch-up contributions to a 401(k) plan. The annual 401(k) plan contribution limit for 2017 is $18,000, but individuals over 50 can defer an additional $6,000 during 2017. The contribution must occur before the end of the plan year.
- Be aware of your filing requirements related to foreign bank and financial accounts, often referred to as FBAR or FinCIN Report 114. The filing deadline is the same as that for an individual income tax return, April 15.

- Increase the amount you set aside for next year in your employer's health flexible spending account (FSA) if you set aside too little for this year.
- If you are eligible to make health savings account (HSA) contributions in December of this year, you can make a full year's worth of deductible HSA contributions for 2017. This applies even if you first became eligible on December 1, 2017.
- Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby save gift and estate taxes. You can give $14,000 in 2017 to each of an unlimited number of individuals, and through gift-splitting, married couples can gift $28,000 per individual before being taxed on the contribution. The federal estate tax exemption for 2017 is $5,490,000 for estates of decedents dying in 2017. (Note that tax reform may double this exemption to $10 million.) The $14,000 annual gift tax exclusion does not reduce the estate exemption.
- You may want to settle an insurance or damage claim, if applicable, in order to maximize your casualty loss deduction in 2017. This is one of the itemized deductions that may be repealed by tax reform, except for those casualties related to federal declared disaster areas.
- Take required minimum distributions (RMDs) from your IRA or 401(k) plan if you have reached age 70½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn.
- If you believe a Roth IRA is better than a traditional IRA, and want to remain in the market for the long term, consider converting traditional-IRA money invested in beaten-down stocks (or mutual funds) into a Roth IRA if eligible to do so. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2017.
- Alternatively, if you converted a traditional IRA to a Roth IRA earlier in the year and the Roth IRA account has declined in value, you could end up paying a higher tax than necessary. You can recharacterize that conversion by transferring the converted amount (plus earnings or minus losses) from the Roth IRA back to the traditional IRA via a trustee-to-trustee transfer. (Note: This ability to recharacterize IRAs may be eliminated by tax reform.)
- myRAs (my Retirement Accounts) have now been eliminated by the Treasury Department and deposits are no longer accepted. If you have money currently invested in this type of vehicle, visit myra.gov for information about transferring your funds to another Roth IRA provider.
- Residential energy credits expired at the end of 2016 and are no longer available, unless Congress reinstates them.

Year-End Tax Planning Considerations for Businesses and Business Owners

- Because corporate income tax rates are also likely to be reduced through tax reform, where possible, income should be deferred to 2018 and deductions accelerated into 2017. NOL carryforwards are more valuable if used in 2017 due to lower tax rates after 2017.
- For C corporations, tax reform will result in an adjustment to deferred tax balances. Income tax effects of the changes in tax law or rates are recognized in the financial statements once signed by President Trump. Income tax effects of changes in tax law are allocated to continuing operations.
- For taxable year 2017, the Ohio Small Business Investor Income Deduction will continue at 100% of a taxpayer’s small business income up to $250,000. Business income in excess of $250,000 (or $125,000, for married filing separately) is taxed at a graduated rate up to 3%. Of note in this area is that a bill is expected to be signed before year-end which allows wages and guaranteed payments paid to a pass-through entity investor by a professional employer organization (PEO) to be included in the calculation of the business income deduction for any greater than 20% investor.
- Businesses should consider making expenditures that qualify for the business property expensing option under Section 179 for new or used property. The limit was permanently set by Congress at $510,000, with an overall investment limit of $2,030,000 in 2017. It is likely that the annual amount

that can be expensed will increase under tax reform.

- Bonus depreciation of 50% is available for new property placed in service in 2017. In addition, the expensing deductions are not prorated for the time that the asset is in service during the year, which opens significant year-end planning opportunities. It is likely that this percentage will increase to 100% for property placed in service after September 27, 2017 under tax reform and will include used property as well, with some exceptions.
- If you own an interest in a partnership or S corporation, consider whether you need to increase your basis in the entity, so you can deduct a loss from the entity for 2017. Monitor 2017 distributions to ensure that distributions do not exceed your tax basis.
- If a C corporation converts to an S corporation, and the S corporation sells, during the recognition period, assets that had built-in gain at the conversion, a corporate level tax applies to the built-in gain. The recognition period of 10 years was permanently reduced to 5 years for potential built-in gains tax.
- Businesses may be able to take advantage of the "de minimis safe harbor election" (also known as the book-tax conformity election) to expense the costs of inexpensive assets and materials and supplies, assuming the costs don't have to be capitalized under the Code Section 263A uniform capitalization (UNICAP) rules. To qualify for the election, the cost of a unit-of-property can't exceed $5,000 if the taxpayer has an applicable financial statement (AFS; e.g., a certified audited financial statement along with an independent CPA's report). If there is no AFS, the cost of a unit of property can't exceed $2,500. A company should have a written policy to document its de minimis safe harbor expensing policy for book purposes which is also followed for tax purposes.
- The IRS has provided a safe harbor under which accrual-basis taxpayers may treat economic performance as occurring on a ratable basis for ratable service contracts. With proper planning, a full deduction in the 2017 tax year may be taken for certain 2017 payments even for services not performed until 2018.
- Claim the domestic production activities deduction on qualifying manufacturing activities under Code Section 199. This can reduce taxable income by 9% of qualifying production activities income earned during 2017. If the 50% of W-2 wages limitation applies, consider ways to increase 2017 W-2 income, perhaps through bonuses to owner-shareholders. Note that this provision may be repealed by tax reform.
- The research and experimentation tax credit was made permanent in 2015 and is preserved under current tax reform bills. This credit may be used to offset not only regular tax, but also alternative minimum tax and the FICA employer portion of payroll tax, depending upon the level of annual gross receipts of the company for a particular period.
- If your budget and business plan for 2018 includes expansion and job growth, consider state and local tax incentives. State and local tax jurisdictions will provide companies an incentive such as training grants or loans to locate in their state or municipality.
- Keep in mind, also, the changes in the Federal filing deadlines, which were effective for 2016, for the following calendar year entities:
    a. Partnership/LLC tax returns are now due March 15th changed from April 15th
    b. Corporation tax returns are now due April 15th changed from March 15th
    c. S Corporation tax returns continue to be due March 15th

These are just a few examples of year-end planning considerations that can save federal and state taxes. Contact a member of our tax management team (Bill Bates, Eric Bonney, Matt Dickert, Debora Girardot, Dan Henning, Steve Hood, Jeff Kujawa, David McGillivary, Jon Steinke, Angie Wurtenberger) if you want to discuss any of the items in more detail. As new developments occur regarding tax reform, we will provide updates.