Individual Year-End Tax Planning

With Donald Trump in the White House and Republicans maintaining a majority in Congress, dramatic tax changes may be on the horizon. Most likely, many provisions will not go into effect until 2018 or later. However, it's important to keep in mind that 2018 legislation can still impact 2017 tax planning.

During year-end planning for 2017, individuals will need to keep an eye on future legislative changes and be prepared to take prompt action, if necessary. Below you will find an overview of key tax provisions and tax minimizing strategies.

Alternative Minimum Tax

Alternative minimum tax (AMT) should be considered before you and/or your accountant begin to time income and deductions. AMT is a separate tax system that limits some deductions and disallows others, such as state and local income tax deductions, property tax deductions and other miscellaneous itemized deductions that are subject to the 2% of AGI. Deductions include investment advisory fees and non-reimbursable employee business expenses.

With proper planning, you may be able to avoid AMT, reduce its impact or even take advantage of its lower maximum rate. Speak with your tax professional on AMT projections for this year and next.

Timing Income and Expenses

Timing is everything when it comes to income and expenses. Smart timing will reduce your tax liability, while poor timing can unnecessarily increase it.

If you don't expect to be subject to AMT in the current or following year, consider income deferment. Deferring income and increasing deductible expenses for the current year is typically a good idea because it will postpone tax. If you expect to be in a higher tax bracket, or if tax rates are expected to increase, the opposite approach rings true.

Whatever the reason for timing your income and deductions, here are some income items you may be able to control:

- 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)

Followed by potentially controllable expenses:

- State and local income taxes
- Property taxes
- Mortgage interest
- Margin interest
- Charitable contributions

Charitable Donations

Good deeds in the form of cash or in-kind items can reap great tax benefits. Generally, you may deduct up to 50% of your adjusted gross income for qualified charitable contributions. Tax savings can also be achieved through noncash donations. By giving gently worn items to a local resale shop, you can deduct the fair market value of the donated items. Before making a large donation to the charity of your choosing, discuss options with your tax professional.

Healthcare Breaks

If medical expenses were not paid through tax-advantaged accounts or were reimbursable by insurance and exceed 10% of your AGI, you can deduct the excess amount. Eligible expenses may include:

- Health insurance premiums

- Long-term care insurance premiums (limits apply)
- Medical and dental services
- Prescription drugs

You may be able to save tax by contributing to one of these accounts:

- **HSA** - You can contribute pretax income to an employer-sponsored Health Savings Account — or make deductible contributions to a personal HSA. Contributions are $3,400 for self-only coverage and $6,750 for family coverage for 2017. As a bonus, if you're age 55 or older, you may contribute an additional $1,000. Like an IRA, HSAs can bear interest or be invested, growing tax-deferred. Balances can be carried over from year to year, and withdrawals for qualified medical expenses are tax-free.
- **FSA** – An employer-sponsored Flexible Spending Account can be used to redirect pretax income. The plan pays or reimburses you for qualified medical expenses, not to exceed $2,600 in 2017. The balance that remains at the end of the year you lose, unless your plan allows you to roll the balance over (up to $500).

Sales Tax Deduction

Taking an itemized deduction for state and local sales taxes instead of state and local income taxes can be valuable for taxpayers residing in states with no or low-income tax or who purchase a major item, such as a car or boat. Certain deductions are reduced by 3% of the AGI amount if your AGI surpasses the applicable threshold (not to exceed 80% of otherwise allowable deductions).

The thresholds for 2017 are $261,500 (single), $287,650 (head of household), $313,800 (married filing jointly) and $156,900 (married filing separately).

Self-Employment Taxes

As a self-employed taxpayer, you may benefit from other above-the-line deductions. You can deduct 100% of health insurance costs for yourself, your spouse and your dependents, up to your net self-employment income. You can also deduct retirement plan contributions and, if you're eligible, an HSA.

Estimated Payments and Withholdings

You can become subject to penalties if you don't pay enough tax through estimated tax payments and withholding. Here are some strategies to help avoid underpayment penalties:

- Know the minimum payment rules
- Use the annualized income installment method
- Estimate your tax liability and increase withholdings

If you have questions about these or other tax saving tips, please contact your accounting professional to schedule your year-end planning meeting.