THE SMALLBIZ BUILDER

Planning For Your Dreams

Year-End 2016 | PADGETT BUSINESS SERVICES® | Special Edition

This Month:

- How Does the Trump Administration Impact 2016 Year-End Planning?
- 2016 Year-End Moves for Individuals
- 2016 Year-End Moves for Business Owners

Welcome to our annual year-end tax planning edition of the SmallBiz Builder! We hope you find the information useful in helping you prepare your returns in accordance with current laws. To keep up to date with any legislative changes or discuss the year-end planning tips, please stay in touch! We hope you find the information helpful and we look forward to working with you to minimize your tax liability for 2016 and into the New Year.

How Does the Trump Administration Impact 2016 Year-End Planning?

Taxpayers traditionally compare tax law in the current year to what's slated for the following year in order to determine what can be done now to limit their overall tax liability and make decisions to wisely position themselves for the future. Donald Trump is calling for "tax reform and tax simplification" in 2017 by proposing to reduce income tax rates for both businesses and individuals, repeal the Affordable Care Act, thereby eliminating the additional Medicare Tax and the Net Investment Income Tax (NIIT), increase deductions for child and elder care expenses, simplify tax benefits for higher education expenses, eliminate alternative minimum tax, estate tax and generation skipping transfer tax, and allow for an immediate write-off of businesses fixed asset investments. With the expectation of substantial change and the uncertainty of how to fund these proposals, it's obvious that what's to come in 2017 remains unclear and therefore makes planning difficult. To discuss this further, please contact us at your convenience.

PADGETT BUSINESS SERVICES
1313 Elmwood Ave.
Columbia, SC 29201
(803) 731-4408 | info@pbs.sc
www.pbs.sc

2016 Year-End Moves for Individuals

The Protecting Americans from Tax Hikes Act (PATH Act), passed in late 2015, permanently extended many of the previously temporary tax. While this eliminates much of the uncertainty, there are still a number of provisions set to expire at the end of 2016 or later. Below are a few that are commonly taken by individual taxpayers:

- Mortgage insurance premiums treated as deductible home mortgage interest
- Mortgage loan forgiveness on a principal residence excluded from income
- 7.5% AGI floor beneath medical expense deductions for taxpayers ages 65 or older
- Above the line deduction for qualified tuition and related expenses

With many of the critical extenders addressed in 2015, it's possible that Congress won't take action before the end of the year. Regardless, effective year-end tax planning must take into account each taxpayer's unique situation and planning goals. To discuss these year-end planning tips, contact us.

- Accelerating deductions into the current year and deferring income, like year-end bonuses, into next year to reduce tax is the most traditional approach to tax planning. By doing so, you may avoid various phase-outs based on adjusted gross income (AGI). Payments made by year-end may be particularly critical in taking above-line-deductions for qualified tuition and related expenses, a provision set to expire at the end of 2016.
- Bunching itemized deductions into one year may help you exceed AGI floors. Consider scheduling routine medical procedures and refilling medical prescriptions before year-end. This is a very important planning strategy for those of you who are 65 or older, since the AGI floor for deductible expenses rises from 7.5% to 10% in 2017. Bunch professional fees, like legal or tax planning advice, to exceed the 2% AGI floor for miscellaneous expenses. Remember, using your credit card to pay these expenses will increase your deductions in the current year, even if you don't pay the credit card bill until next year.
- High earning taxpayers should consider ways to defer additional net investment income as well as reduce modified adjusted gross income to reduce exposure to the 3.8% surtax on unearned income. If possible, consider spreading income out over a number of years or offsetting the income with above-the-line deductions. Grouping similar categories of net investment income activity may be another way to reduce overall net investment income.
- Make up a tax shortfall with increased withholding. Since you must pay tax as you earn or receive income, check withholding and estimated tax payments now, while you still have time to correct a shortfall. If you're in danger of an underpayment penalty, consider increasing withholding on your salary or bonuses before year-end. Large late-year estimated

tax payments can leave you exposed to penalties for previous quarters, while increasing withholding is considered to have been paid evenly throughout the year.

- Consider your investment portfolio and determine if you can benefit from selling stock at a loss to offset capital gains earned during the year. But remember, losses are only deductible up to $3,000 per year.
- It isn't too late to fund your retirement account. Contributions reduce taxable income at the time that they're made and the taxes aren't paid until you take the money at retirement.

2016 Year-End Moves for Business Owners

The PATH Act made many business-related provisions permanent as well, such as Code Sec 179 expensing, the research credit, and the 5-year recognition period for built-in gains tax. The PATH Act also extended bonus depreciation for another 5 years under a phase-down schedule. For 2016 & 2017, businesses will be allowed to depreciate 50% of the cost of equipment, but that'll decrease to 40% in 2018 and 30% in 2019. Businesses seeking to maximize tax benefits will want to consider the role of these extenders, both permanent and temporary, in their planning strategy as well as the traditional timing techniques for income and deductions.

- Section 179 expensing limits have been permanently increased to $500,000. The limit is subject to phase-outs for purchases that exceed $2,010,000. Beginning in 2016, the expensing limits and phase-out amounts will be indexed for inflation and the $250,000 cap on expensing qualified real property will be eliminated. Additionally, HVAC units are now eligible for Section 179 expensing. When comparing the tax benefits of Section 179 deduction versus bonus depreciation, remember that Section 179 is available for both new and used property that's purchased and placed in service. However, bonus deprecation is only available for new or first-time use property.
- Set up a self-employed retirement plan if you're self-employed and haven't done so yet. Also consider setting up an employer retirement plan for your business. Employer contributions to a retirement plan are an allowed business deduction.
- Accelerate deductions into the current year. If you're a cash-basis taxpayer, consider making an estimated state tax payment before December 31 so you can deduct it this year rather than next. Both cash and accrual base taxpayers can charge expenses on a credit card and deduct them in the year charged, regardless of when paid. Warning: If it's likely you'll be in a higher tax bracket next year, the opposite strategy (accelerating income and deferring deductions) may save you more money. When implementing this strategy, consider electing out of bonus depreciation to allow depreciation deductions to be spread more evenly in the future.

- Increase your basis in a partnership or S-Corporation if doing so will enable you to deduct a loss from it for this year.
- Effective starting in 2016, the Tangible Property Regulations were revised to increase the de minimis safe harbor limits from $500 to $2,500 for taxpayers without applicable financial statements (AFS). Consider taking advantage of the new threshold! Although not required, we recommend you establish a written policy in your office for implementing a $2,500 per item deduction limit.
- Filing deadlines have changed for C-Corporations and Partnerships:
  - The C-Corporation filing deadline will be April 15, 2017
  - The Partnership filing deadline will be March 15, 2017.
- Employers have been presented with various changes this year! One of the provisions in the PATH Act accelerated the filing deadline for Form W-2 and Form 1099-MISC with Box 7 completed from February 28th to January 31st, regardless of whether filing on paper or electronically with the IRS or the SSA. Furthermore, just days before the proposed overtime rules were set to take effect, a federal judge in Texas blocked the legislation that would have doubled the overtime threshold to $47,474.

We hope you've found these year-end tax planning tips helpful. The end of the year is always a good time to assess your financial situation, identify mistakes made in the past, and plan for the future. It would be our pleasure to assist you in applying some of these tax strategies to your unique situation, so please make an appointment to stop by our office. Contact us at your earliest convenience so you don't miss out on a tax saving opportunity! Remember, it's never too early nor too late to start planning for the future!

From our family to yours, we wish you a joyous holiday season and a Happy New Year.