THE SMALLBIZ BUILDER

Planning For Your Dreams

Year-End 2017 | PADGETT BUSINESS SERVICES® | Special Edition

This Month:

- Latest Developments in Tax Reform Under the Trump Administration
- 2017 Year-End Moves for Individuals
- 2017 Year-End Moves for Business Owners

Oh, what a year it has been! There's no doubt that tax planning will be nothing short of challenging this year amid rumors that we could see the most extensive tax reform in decades! Whether the focus will be on individuals, businesses or both and whether the changes will be made retroactive to the start of 2017, effective beginning with 2018, or somewhere in between, all remains unclear! To complicate matters, certain "extenders" included with the passage of the PATH (Protecting Americans from Tax Hikes) Act in late 2015 haven't been renewed. We'll simply have to wait to see if these will roll into a tax reform bill, get addressed in their own year-end tax bill, or expire without retroactive reinstatement. And wait, there's more! What will become of the Affordable Care Act? Will the individual mandate be repealed, and if so, effective when: 2017, 2018 or beyond? With so much uncertainty, our best advice is to **stay in touch**. We'll continue to update you with any legislative changes! As for now, we'll briefly discuss the latest developments in tax reform under the Trump administration and review the traditional year-end planning moves for individuals and small business owners.

Latest Developments in Tax Reform Under the Trump Administration

The House version of the Tax Cuts and Jobs Act was passed on November 16th, with the Senate version released on Nov 9th, then modified significantly on Nov 14th and finally passed on December 2nd. The two versions of the bill must be merged into a single piece of legislation, passed by both the House and Senate, then signed by the President to become law. We're expecting the committees to reach an agreement by Christmas. See the chart on the next page for some highlights.

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Tax Reform Highlights		
	House	**Senate**
Individual Tax Rates	4 brackets, top rate of 39.6%	7 brackets, top rate of 38.5%
Child Tax Credit	$1,600	$2,000
Medical Expense Deduction	Eliminated	Preserved
Alimony Deduction	Eliminated	Preserved
Education Incentives	Eliminated	Preserved
Alternative Minimum Tax	Eliminated	Preserved, but with larger exemption
Length of all Individual Changes	Permanent	Expire at the end of 2025
Individual Insurance Mandate	Preserved	Eliminated
Estate Tax	Repealed in 2023	Preserved, but with a doubled exemption
Corporate Tax Rate	20% immediately	20% in 2019

2017 Year-End Moves for Individuals

The following provisions expired at the end of 2016. Historically, it isn't uncommon for such provisions to be extended last minute. However, there's been little mention of these in DC so their fate is still uncertain.

- 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

Despite tax reform looming, there are some traditional tax planning moves that could benefit individuals:

- 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 phaseouts based on adjusted gross income (AGI).
- Payments made by year end may be particularly critical to taking above-line-deductions for qualified tuition and related expenses, a provision set to expire at the end of 2017.
- Bunching itemized deductions into one year may help you exceed AGI floors. Perhaps making real estate tax or state income tax payments early can help reduce your tax liability in 2017. Consider scheduling routine medical procedures and refilling medical prescriptions before year-end. There is still time to donate to a good cause, so don't forget about charitable donations!
- 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 and reduce modified adjusted gross income to reduce exposure to the 3.8% surtax on unearned income. If possible, consider spreading income out over many years or offsetting the income with above-the-line deductions. Grouping similar categories of net investment income activity can also 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.

2017 Year-End Moves for Business Owners

The Tax Cuts and Jobs Act will no doubt impact business owners as lower tax rates, increased expensing on fixed assets and more liberal rules for cash accounting are expected. For now, consider some of the traditional year end moves for business owners below:

- For 2017, businesses will be allowed to take bonus depreciation at 50% of the cost of equipment. The maximum amount you can elect to deduct for most section 179 property placed in service in tax years beginning in 2017 is $510,000. This limit is reduced by the amount by which the cost of the property, placed in service during the tax year, exceeds $2,030,000. Although Section 179 is available for both new and used property, bonus deprecation is only available for new or first-time use property. Businesses seeking to maximize tax benefits will want to consider year-end fixed asset purchases
- 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.
- The 21st Century Cures Act permits an eligible employer to provide a qualified small employer health reimbursement arrangement (QSEHRA) beginning January 1, 2017. A QSEHRA is not a group health plan and thus is not subject to the requirements that apply to group health plans. If you desire to reimburse your employees' health care premiums under this arrangement, we recommend that you hire a firm to help set up and administer the plan.
- Accelerate deductions into the current year. If you're a cash-basis taxpayer, consider making an estimated state tax payment before December 31st so you can deduct it this year rather than next year. Both cash and accrual base taxpayers can charge expenses on a credit card and deduct them in the year charged, regardless of when paid.
- Increase your basis in a partnership or S-Corporation if doing so will enable you to deduct a loss from it for this year.

Remember the newer filing deadlines for C-Corporations and Partnerships:

- The C-Corporation filing deadline will be ***April 17, 2018***.
- The Partnership filing deadline will be ***March 15, 2018***.

We hope you've found these year-end tax planning tips helpful. 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.

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